



# MONGOLIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

## MONGOLIA ELEVENTH EITI RECONCILIATION REPORT 2016

NOVEMBER 2017

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## Reliance and inherent limitations

This report is solely for the purpose set out in our engagement contract dated 24 April 2017 and for the use of M.EITI. It is not intended for the purpose other than stated in the engagement contract. While our report may be distributed more widely, any reliance placed on it by another party is that party's sole responsibility.

This report has been prepared as outlined in the terms of our engagement contract. The services provided in connection with this engagement comprise an agreed upon procedures engagement, which is not subject to assurance or other standards issued by International Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

Our fieldwork was performed during the period 24 April 2017 to 13 November 2017. We have not undertaken to update our report for events or circumstances arising after 13 November 2017. Our findings should not be extrapolated to future periods, as laws and the contextual environment are subject to change which may alter our findings subsequent to the date of reporting.

The information used in preparing our report has been compiled from a mixture of public sources, data provided by EI companies and government entities through information templates, the M.EITI including MSG and the M.EITI Secretariat, and meetings with various ministries, government bodies and agencies, companies, civil society organisations and other stakeholders. A bibliography and list of sources is set out in Appendix 33. We do not accept responsibility for such information provided to us, which remains the responsibility of management of the particular EI companies, government entities, ministries, etc. as relevant. We have not, sought to establish the reliability of the sources of information by reference to other evidence, and we have not verified the validity of the data received. As such, the scope of our work was different from that for an audit and, consequently, no assurance is expressed.

This report has been prepared in English and Mongolian. If there is any discrepancy between the English and Mongolian versions of this report, the English version shall prevail.

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# Glossary

<b>ASM (s)</b>	Artisanal and Small-scale Mining/ Miners
<b>A category</b>	Confirmed mineral resources (used by MRPAM)
<b>B category</b>	Expected mineral resources (used by MRPAM)
<b>C category</b>	Possible mineral resources; needs further survey to confirm (used by MRPAM)
<b>P category</b>	Inferred mineral resources (used by MRPAM)
<b>BOD</b>	Board of Directors
<b>BoM</b>	Bank of Mongolia
<b>EI (s)</b>	Extractive Industry/Industries
<b>EPP</b>	Environmental Protection Programme
<b>CAGR</b>	Compound Annual Growth Rate
<b>CIT</b>	Corporate Income Tax
<b>CO</b>	Customs Office
<b>CSO</b>	Civil Society Organisation
<b>DBM</b>	Development Bank of Mongolia
<b>EI</b>	Extractive Industries
<b>FDI</b>	Foreign direct investment
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>GALWS</b>	General Agency for Labour and Welfare Service
<b>GAPCSP</b>	Government Agency for Policy Coordination on State Property
<b>GDP</b>	Gross Domestic Product
<b>GDT</b>	General Department of Taxation
<b>GoM</b>	Government of Mongolia
<b>Ha</b>	Hectare
<b>IA</b>	Independent Administrator
<b>IFAD</b>	International Fund for Agricultural Development
<b>IFRS</b>	International Financial Reporting Standard
<b>ISAE</b>	International Standards on Assurance Engagements
<b>JV (s)</b>	Joint-venture/ ventures
<b>JSC</b>	Joint Stock Company
<b>LLC</b>	Limited Liability Company
<b>M/m/mill.</b>	Million
<b>MASM</b>	The Mongolian Artisanal Miners' United Umbrella Association
<b>M.EITI</b>	Mongolia Extractive Industries Transparency Initiative
<b>MEGDT</b>	Ministry of Environment, Green Development and Tourism (former)
<b>MET</b>	Ministry of Environment and Tourism
<b>ML</b>	Ministry of Labour
<b>MNAO</b>	Mongolian National Audit Office
<b>MNT</b>	Mongolian Tugrug



<b>MoF</b>	Ministry of Finance
<b>MoM</b>	Ministry of Mining (former)
<b>MMHI</b>	Ministry of Mining and Heavy Industry
<b>MRAM</b>	Mineral Resources Authority of Mongolia (former)
<b>MRPAM</b>	Mineral Resources and Petroleum Authority of Mongolia
<b>MSG</b>	Multi-Stakeholder Group (of Mongolia)
<b>MTA</b>	Mongolian Taxation Authority
<b>NEC</b>	Nuclear Energy Commission
<b>N/A</b>	Not applicable
<b>NP</b>	Not Provided
<b>NSO</b>	National Statistics Office
<b>OT</b>	Oyu Tolgoi
<b>PAM</b>	Petroleum Authority of Mongolia (former)
<b>PIA</b>	Professional Inspection Agency
<b>PSA</b>	Production Sharing Agreement
<b>PWYP</b>	Pay What You Publish
<b>REQ</b>	Requirement of the EITI Standard
<b>SAM</b>	Sustainable Artisanal Mining
<b>SDC</b>	Swiss Agency for Development and Cooperation
<b>SHI</b>	Social and health insurance
<b>SIGO</b>	Social Insurance General Office
<b>SMEs</b>	Small Medium Entities
<b>SOE</b>	State Owned Entity
<b>SPC</b>	State Property Committee
<b>SPIA</b>	State Professional Inspection Agency
<b>SSI</b>	State Social Insurance Authority
<b>SSM</b>	Small-scale mining
<b>ToR</b>	Terms of Reference
<b>USD</b>	United States Dollar
<b>VAT</b>	Value Added Tax
<b>YE</b>	Year End



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13 November 2017

In accordance with the contract between the Mongolia Extractive Industries Transparency Initiative ("M.EITI") and the Consortium of KPMG Audit LLC and KPMG France (together "KPMG") dated 24 April 2017, KPMG was appointed to be the Independent Administrator of the 2016 Mongolia EITI reconciliation and contextual information report. Under this process, KPMG was engaged to perform the eleventh M.EITI reconciliation of material receipts and payments, and to prepare the eleventh M.EITI Report.

Our work was carried out between 24 April 2017 and 13 November 2017 based on the engagement contract and terms of reference dated 24 April 2017 and our findings are summarised in the accompanying report, including appendices.

This engagement has been performed in accordance with International Standard on Related Services 4400 applicable to agreed-upon procedure engagements. The procedures performed do not constitute an audit or a review made in accordance with any generally accepted standards on auditing or any generally accepted standards on review engagements and, consequently, no assurance is being expressed.

Had we performed additional procedures or had we performed an audit or a review of the financial statements in accordance with any generally accepted standards on auditing or with any generally accepted standards on review engagements, other matters might have come to our attention that would have been reported to you. We do not express any assurance on the transactions, on the contextual information, nor on any other matter in this report.

Our report is solely for the purpose set forth in the first two paragraphs and is therefore for your information and is not to be used for any other purposes. This report relates only to the items specified in the terms of reference and does not extend to any financial statement balances or any financial statements taken as a whole.

Mark Eberst

KPMG Audit LLC  
Ulaanbaatar, Mongolia



# 1 Introduction

## 1.1 Introduction

### 1.1.1 Background

The Extractive Industries Transparency Initiative (EITI) has issued a global standard for transparency in the Extractive Industries, and in 2016 revised this standard following thirteen years since the first EITI Conference at which the EITI principles were agreed.

Through the EITI Standard and its principles, the EITI aims to promote transparency across Extractive Industries and to provide citizens with a basis for promoting transparent and accountable use of government revenues generated by the Extractive Industries. The EITI process seeks to create transparency, to build public awareness of happenings within the Extractive Industries and to organise the many involved contributors to the reporting project.

The EITI Standard requires an Independent Administrator to annually perform a reconciliation of material payments by entities in the EI and related receipts received by the government, and to prepare a report in compliance with the EITI Standard setting out the results of the reconciliation together with contextual information about the EI in the country.

Mongolia first implemented the EITI Standard for the 2006 reconciliation, and has issued ten M.EITI Report prior to this one. KPMG was appointed as the Independent Administrator for the eleventh M.EITI Report and revenues reconciliation in Mongolia.

The new EITI Standard was formally adopted in February 2016 (<https://eiti.org/document/standard>) during the Lima EITI Global Conference. The new standard increases the requirements for contextual information about the Extractive Industries' activities to be reported as part of the M.EITI Report. This year's M.EITI Report embraces the new EITI Standard, and seeks to comply with its provisions as much as possible. The contextual information is set out in Section 5 of this report.

### 1.1.2 The Independent Administrator's role

The Independent Administrator's role is principally to:

- Carry out the procedures agreed with the MSG;
- Draft and send reporting templates to licencees and government entities;
- Obtain reporting from licencees and government departments to the extent possible;
- Gather the data which is reported by the licencees and government entities;
- Compile the reconciliation and seek to resolve discrepancies to the extent possible;
- Prepare and publish a report comprising the reconciled payments and revenues, any differences, and other issues of relevance to understanding the payments and revenues from the activities of the Extractive Industries in Mongolia; and
- Prepare and publish a report comprising contextual information using sources that are publicly available together with information requested and reported by government departments, companies and other Extractive Industry licencees.

Our data collection and reconciliation activities started after the M.EITI's approval of our Inception Report following an Inception Workshop held with the MSG on 25 April 2017 and MSG meeting on 16 June 2017. Through our Inception Workshop we developed our work plan with close input from the MSG, and agreed the precise scope of our procedures with the MSG taking into account their views and the particular aspects of EI relevant to Mongolia. Special focus was placed for Mongolia's upcoming validation review by the International EITI Secretariat. The results of our Inception Workshop were circulated to the MSG for their approval prior to starting our procedures. Through this process, the report writing procedures and scope of work should incorporate no bias as the MSG has contributed its opposing views amongst itself to reach neutrality. KPMG stands guardian to reaffirm its vital role as to be independent.

## **1.2 Data assurance in the 2016 M.EITI Report**

**Initial Assessment:** The IA applied its professional judgement to assess the extent to which reliance can be placed on the Existing Controls and Audit Framework of the companies, SOEs and government entities to determine the Initial Assessment of Assurance for each of the reporting entities. The IA found the Existing Controls and Audit Framework and the Initial Assessment of Assurance to be low to medium.

**Final Assessment:** Based on the MSG agreed assurance procedures, the IA conducted the Final Assessment of Assurance after the reconciliation of the financial data. For companies and SOEs, 41.90% of the total revenues reconciled was assessed within high range, 57.16% of the total revenues reconciled was assessed within medium/low range and only 0.94% of the total revenues reconciled was assessed within low range. For government entities, although the majority of the entities remained within low to medium range, due to reconciliation process between payment amounts by companies and SOEs and received amounts by government entities, when data assurance of the companies and SOEs increased, by principle, data assurance of the government increased. Therefore, the IA concluded that the final assessment of the overall comprehensiveness and reliability of reconciled financial data from the companies, SOEs and government entities to be satisfactory. Detail of the data assurance process is discussed in Section 3.3.4.

## **1.3 Participants in the 2016 M.EITI Report**

Government entities receiving significant revenue streams from EI companies, and a selection of the EI companies making such payments, were requested to participate in the reconciliation process and to provide contextual information as part of additional reporting templates.

The government entities and companies which participated in the reconciliation are listed in Sections 3.4.1, 3.4.2 and the appendices.

## **1.4 Acknowledgement**

KPMG would like to thank and express its appreciation to the team of the M.EITI Secretariat, led by Mr. Tsolmon Sh, for supporting us in arranging meetings and helping to organise follow up letters, meetings, confirmations, and other procedures in relation to government entities and Extractive Industry companies.

## 2 Executive Summary

### 2.1 Overview of approach and reconciliation results

KPMG started the reconciliation approach by considering the receipts initially listed by the government entities. According to this initial reporting from the government, receipts had been recorded from 2,079 companies during 2016. Applying a risk-based approach and taking into consideration the amounts of key revenue reported by the government, 213 of these companies were selected for the reconciliation. Based on the initially reported government data, these 213 companies contributed 95.6% of the key revenue streams for 2016.

The initial variance in selected key revenue streams in our reconciliation between amounts reported by the government and amounts reported by the companies was MNT 105 billion. After reconciliation, the net variance was reduced to MNT 74 million as of the date of our report.

*MNT million*

	Initial reporting	Adjustments	Adjusted
Reported by Government	1,167,123	(80,975)	1,086,148
Reported by Companies	1,061,847	9,484	1,071,331
<i>Companies reported more than government</i>	(42,561)	47,981	5,420
<i>Companies reported less than government</i>	147,837	(138,440)	9,397
<b>Net difference</b>	<b>105,276</b>	<b>(90,459)</b>	<b>14,817</b>
Less companies which did not send reconciliation information templates *	(2,250)	55	(2,195)
Less government entities which did not send reconciliation information templates **	(59,707)	47,159	(12,548)
<b>Net difference after unreported companies</b>	<b>43,319</b>	<b>(43,245)</b>	<b>74</b>

\* This comprises both companies which did not send the reconciliation information templates but did initially report in the M.EITI E-Reporting system, and companies which neither reported payments in the M.EITI E-Reporting system nor sent the reconciliation information templates. In neither case would it be possible to reconcile the data as information was not provided, therefore they are excluded to reach the final net unreconciled difference.

\*\* This comprises government entity, Customs Office which did not send the reconciliation information templates but did initially report in the M.EITI E-Reporting system. Without the reconciliation information templates, it would not be possible to reconcile the data as the reconciliation information was not provided, therefore there existed significant differences per the initially reported data.

## 2.2 Summary of government receipts reconciled

### 2.2.1 Total receipts by government entities

Total receipts reported by government entities included in the reconciliation were as shown:

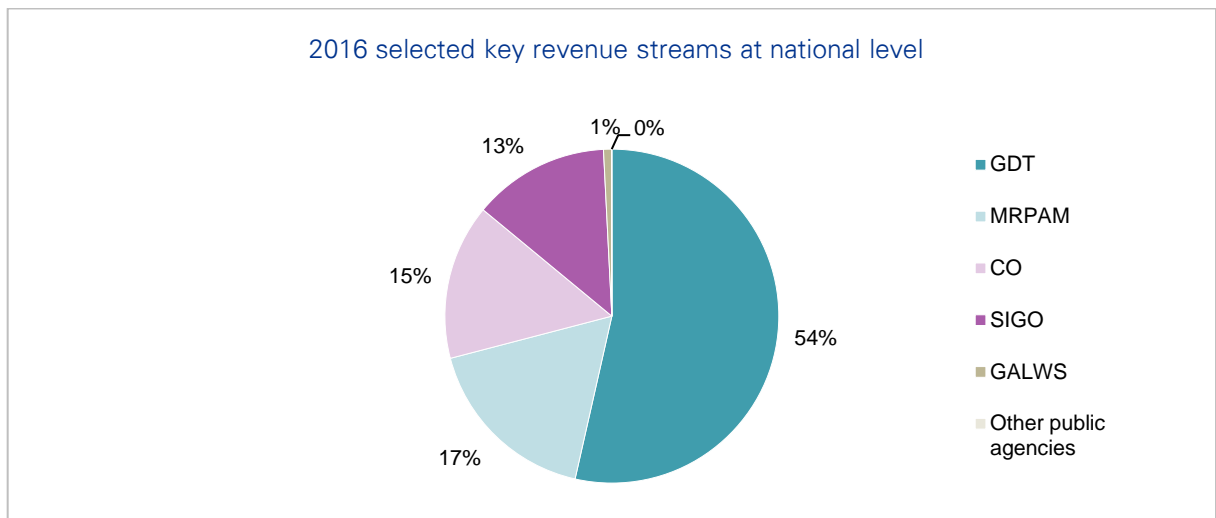
MNT million

Government entity	Initial key revenue streams	Key revenue streams after reconciliation	Percentage change
General Department of Taxation	577,534	533,374	-8%
Mineral Resources and Petroleum Authority of Mongolia	154,365	173,283	12%
Customs Office	249,740	150,002	-40%
Social Insurance General Office	138,897	131,621	-5%
Other public agencies	25	200	700%
General Agency of Labor and Welfare Services	4,984	7,784	56%
<b>Sub-total: National level</b>	<b>1,125,545</b>	<b>996,264</b>	<b>-11%</b>
Aimags	41,077	88,710	116%
Ulaanbaatar districts	501	1,174	134%
<b>Sub-total: Local level</b>	<b>41,578</b>	<b>89,884</b>	<b>116%</b>
<b>Total</b>	<b>1,167,123</b>	<b>1,086,148</b>	<b>-7%</b>

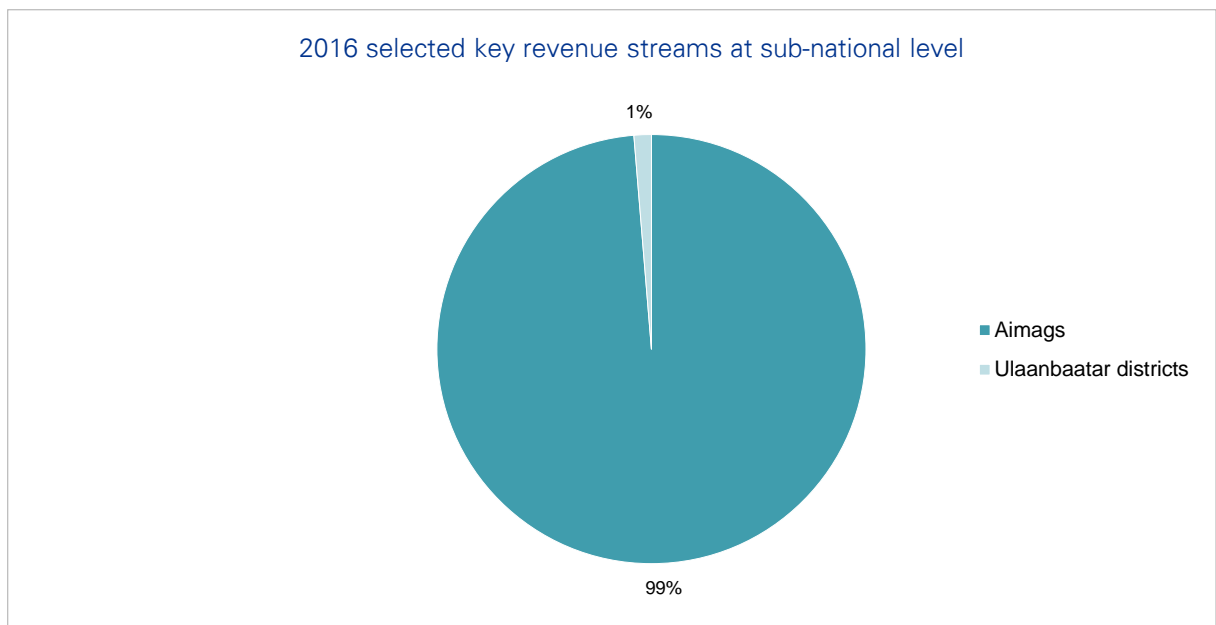
Initial key revenue streams were reported by companies and government entities through M.EITI E-Reporting system before the Independent Administrator started its work on 25 May 2017. The key revenue streams after mean the resulting amount at the end of the Independent Administrator's reconciliation process as of 26 October 2017.

The increase in receipts of the Mineral Resources and Petroleum Authority of Mongolia, Other public agencies, General Agency of Labor and Welfare Services, aimags and Ulaanbaatar districts was due to amounts missing in the initial government reported information, identified through the reconciliation process. The decrease in receipts of the General Department of Taxation, Customs Office, Social Insurance General Office was because the government reported data included companies which did not have mining activity. Also, Customs Office did not provide the reconciliation information, therefore, significant amounts per the initially reported data were excluded to reach the final net unreconciled difference.

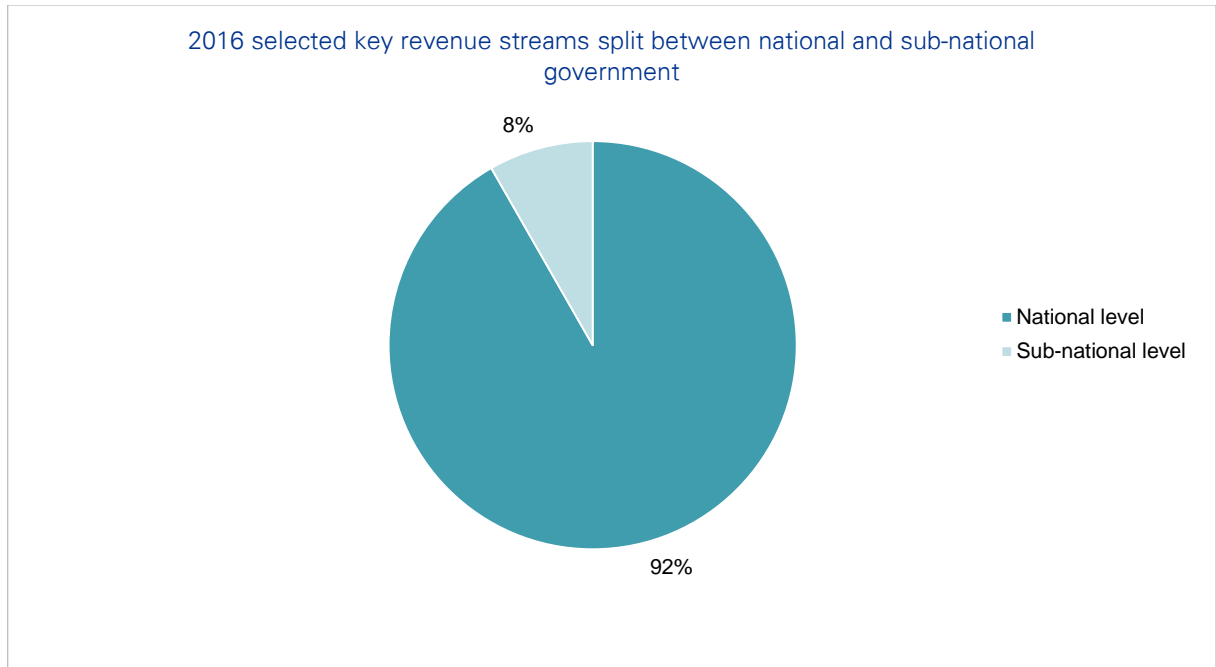
The split of the reconciled revenue streams (selected key revenues) between national government entities is shown in the chart below:



The split of reconciled selected key revenue streams between sub-national government entities is shown in the chart below:



The split of reconciled selected key revenue streams between national and sub-national government entities is shown in the chart below:





## 2.2.2 Government receipts by category after reconciliation

Government selected key revenue streams included in the reconciliation, sorted by category, were as follows after the reconciliation:

			MNT million
#	National / Sub-national	Category of receipts	Reconciled amount
1	National	Corporate income tax	228,768
2	National	Customs duty	32,453
3	National	Value added tax	118,029
4	National	Excise on petrol and diesel fuel	2,111
5	National	Fee for exploitation of mineral resources (royalties)	235,926
6	National	License fee for exploitation and exploration of mineral resources	14,793
7	National	Fee for recruiting foreign experts and workers	7,784
8	National	License fee for exploitation and exploration of oil	1,149
9	National	Fee for air pollution	17,684
10	National	Employers' social and health insurance	131,621
11	National	Customs service fee	48,405
12	National	Bonus for training as per PSA	994
13	National	Supporting payment to representative office as per PSA	2,050
14	National	Petroleum receipts of GoM from PSA	133,698
15	National	Royalty	20,599
16	National	50% Contribution to environmental protection special account	-
17	National	Total donations and support given to public agencies	200
18	Sub-national	Real estate tax	18,907
19	Sub-national	Tax on vehicles and self-moving mechanisms	1,410
20	Sub-national	Land use fee	12,257
21	Sub-national	Fee for water use	36,587
22	Sub-national	Fee for use of mineral resources of wide spread	739
23	Sub-national	Fees for recruiting foreign experts and workers	417
24	Sub-national	Support received as per PSA	1,084
25	Sub-national	50% Contribution to environmental protection special account	100
26	Sub-national	Total donations and supports given to public agencies	18,383
<b>Total</b>			<b>1,086,148</b>
Amount declared by government entities			1,086,148
Amount declared by companies			1,071,331

## 2.3 Key findings

### 2.3.1 Scope of reconciliation

#### 2.3.1.1 Materiality threshold

In order to improve the efficacy and efficiency of the reconciliation process, KPMG applied materiality thresholds and adopted a risk-based approach to selecting companies for inclusion. Materiality thresholds were set for receipts at both national and local levels of government. This approach was based on the EITI Standard, and took into account comments received during the preliminary consultations, especially from local government representatives, and the direction and decisions of the MSG.

At national level, the materiality threshold for individual reconciliations was MNT 250 million. For sampled reconciliations under the risk based approach, companies with total key revenue streams of more than MNT 50 million but less than MNT 250 million were included. More detailed information on the individual and sampling reconciliation approach is provided in Section 3.3.

At sub-national level, the materiality threshold for individual reconciliations was MNT 100 million. For sampled reconciliations, companies with total key revenue streams of more than MNT 30 million but less than MNT 100 million were included.

#### 2.3.1.2 Selection of companies

The government and company reported information consolidated by the M.EITI Secretariat from the E-Reporting system showed 2,079 and 1,113 companies, respectively. Both sets of reported data covered the same scope of payments and receipts, consisting of 44 key revenue streams for which reporting is mandatory for M.EITI purposes and 19 revenue streams for which M.EITI reporting is voluntary. 13 of the 44 key revenue streams were reported by sub-national government entities. All other revenue streams were reported by national government entities.

KPMG used the government reported information as the basis for selection of companies as it appeared to be more complete than the company reported data.

### 2.3.2 Assurance

#### 2.3.2.1 Management representation

Credibility of data is a key requirement of the EITI Standard. From each company included in the scope of the reconciliation, KPMG requested a representation letter, signed on behalf of the board of directors or senior executive, as appropriate, to confirm the completeness and accuracy of the information reported to M.EITI Secretariat and regarding information provided in the additional reporting templates. Out of 213 companies, 192 companies submitted and 21 companies did not submit such a representation letter. More detailed information on assurance procedures provided in Section 3.3.4

#### 2.3.2.2 Audit and assurance reports for companies

The EITI Standard requires a credible assurance process applying international standards and to consider the local audit or assurance framework with emphasis on the completeness and accuracy of reporting by companies and government entities.

Set out below is a summary of the assurance procedures applied:

- 130 companies provided their representation letters and independent auditors' reports;
- 43 companies provided their representation letters but did not provide independent auditors' reports;
- 16 companies provided their independent auditors' reports but did not provide representation letters;
- 24 companies provided neither independent auditors' reports nor representation letters;
- in addition, one company provided agreed upon procedures reports verifying amounts reported to EITI.

Please refer to Section 3.3.4 for details on the assurance procedures, Appendix 4 for details of the responses received from companies and Appendix 12 for details of the audit reports provided by companies.

### 2.3.2.3 Assurance over government data

Assurance over the government reported data is also important for the reliability of information from government entities. The MoF included a signature with the overall data although no specific representation or attestation was included from the MoF.

KPMG also asked for representation letters to be signed by the head of each government entity to confirm the completeness and accuracy of the information presented within the additional information templates. Please refer to Appendix 5 for details of responses received from government entities.

Please refer to Section 3.3.4 for details about the assurance procedures applied.

## 3 Reconciliation Scope and Methodology

### 3.1 Introduction

For the 2016 M.EITI Report, as agreed with the MSG during the Inception Workshop, KPMG developed separate thresholds for the national and sub-national levels. Having separate thresholds for national and sub-national levels was a consensus reached during the workshop as a response to concerns raised by some MSG members about the usefulness of the M.EITI Report for sub-national stakeholders.

For the 2016 M.EITI Report, KPMG proposed to divide the population into two tranches:

- A first tranche of more material companies based on a traditional monetary level threshold, for which there would be individual reconciliations for each entity;
- A second tranche of less material companies, for which the reconciliation would be performed on a sample basis. For this second tranche, KPMG applied a risk-based approach combined with KPMG's sampling methodology in order to refine the selection. The risk-based approach included, but was not limited to, considering the changes in receipts from certain companies against prior year reporting, and giving additional attention to companies with Type A (production) licences, as requested by the MSG in the Inception Workshop.

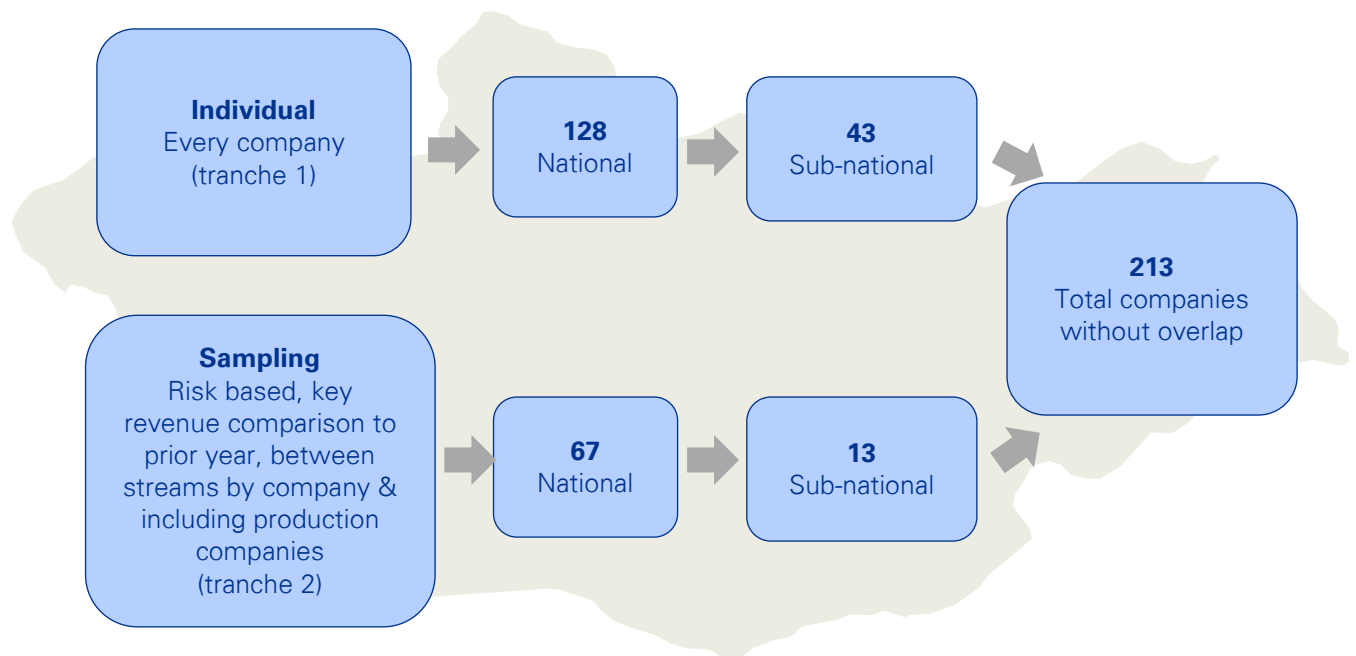
The starting point of the approach was the most complete list of companies initially available (2,079 in total), which resulted from the consolidation of all templates uploaded by the government entities, and provided by M.EITI Secretariat as at 29 June 2017.

- For the first tranche, i.e. companies selected individually for reconciliation, application of the agreed materiality thresholds resulted in 96.3% coverage of key revenue streams at national level and 92.6% at sub-national level;
- The addition of the second tranche, i.e. companies within the ranges for sampling with the risk based approach, took the overall coverage up to 98.6% in total.

The table and figure below illustrate the selection process. The thresholds applied are described in Section 3.3.

Reconciliation type	Number of companies		Key revenues (MNT billion)			Coverage
	National	Local	National	Local	Total	
Individual level (tranche 1)	128	43	1,124	50	1,174	96.0%
Sampling (tranche 2)	255	39	29	2	31	2.6%
Remainder	1,696	1,997	14	2	16	1.4%
<b>Total</b>	<b>2,079</b>	<b>2,079</b>	<b>1,167</b>	<b>54</b>	<b>1,221</b>	<b>100.0%</b>

Due to the thresholds at each of national and sub-national levels, certain companies were selected for reconciliation in both groups, creating some overlap. The chart below illustrates the number of companies after eliminating the overlap.



Key revenue streams reported by government entities for the selected 213 companies amounted to MNT 1,167 billion, which comprised 95.6% of the total key revenue streams.

## 3.2 Reconciliation methodology

### 3.2.1 Data collection

Seven mandatory M.EITI reporting templates, established previously by the EITI National Council, have been in use for several years for reporting by companies and government entities. These seven templates were used for on-line data reporting in the M.EITI E-Reporting system prior to KPMG being engaged as the Independent Administrator.

Initial data was extracted from the E-Reporting IT platform used for reporting by both companies and government entities. Next, KPMG reconciled the government and company data collected based on the above mentioned seven reporting templates.

For the reconciliation of differences and compilation of additional information, as required under the EITI Standard, KPMG developed additional templates which were agreed with M.EITI Secretariat. These additional templates were uploaded to the E-Reporting IT platform for entities to fill in. KPMG contacted the reporting entities directly to clarify any information gaps or discrepancies.

#### 3.2.1.1 IT platform used for reporting by companies and government entities

An E-Reporting web based platform was used to collect data from reporting entities. This data collection process through E-Reporting platform was newly applied in 2014 as the first time for 2014 data reporting. Mongolia is a pioneering country in developing and implementing such a platform among 50 EITI implementing countries.

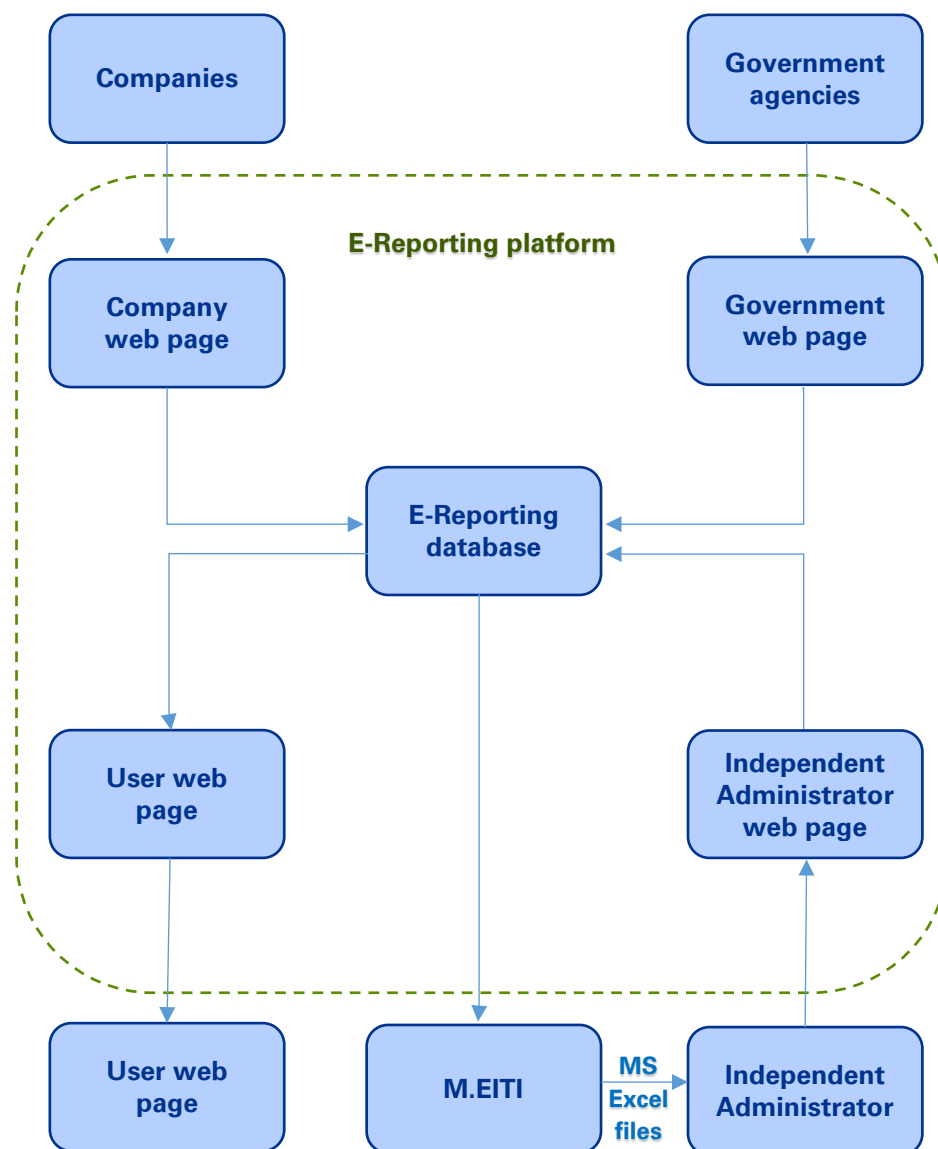
Among many advantages of the M.EITI E-Reporting system, a key benefit is expected to be an increase in access to information for the general public. In addition, the M.EITI E-Reporting system uses both Mongolian and English languages making the information available both for Mongolians and interested parties outside of Mongolia. This, consequently, should improve the transparency of the M.EITI reporting. Furthermore, the E-Reporting process should decrease the data collection time, risk of data error in the reporting, and overall burden for reporting entities.

On the other hand, the timing of the set up of the M.EITI E-Reporting system and the request for data to be reported has meant the Independent Administrator was involved later in the process than would be expected. Further, the use of a web-based IT reporting platform means consideration needs to be given to integrity, confidentiality and independence of the data.

The current E-Reporting data collection process is initiated by reporting government entities and companies once they are granted with login access. The reported data is then collected in an E-Reporting database. At the data collection cut-off date, the IT consultant at the M.EITI Secretariat prepares reconciliation data from the database and provides it to the Independent Administrator in Microsoft Excel format. Once the Independent Administrator performs the reconciliation, it reports back to the M.EITI E-Reporting system the reconciled figures. At the end, users are able to view both the initial and reconciled figures at each company's individual revenue level.



The following diagram shows how data flows via the E-Reporting platform:



### 3.2.1.2 Reporting templates (REQ 4.1)

The reporting templates fall into two categories:

1. Seven mandatory templates were historically designed to collect data on the operations, production and sales of companies engaged in exploration for or extraction of mining and petroleum resources, as well as the corresponding collections by local and national government. For the 2016 reconciliation process, those templates were made available online by M.EITI and filled in directly in the E-Reporting tool by companies and government entities.

Each template consists of three main sections including contact address, basic information, and other reporting fields. At the start of the initial reconciliation approximately 1,113 companies had self-submitted their 2016 records and 2,079 companies had been reported upon by the government entities, all through E-Reporting. Some of this reporting included representation letters and audit or

assurance reports. KPMG reviewed the payments and receipts to be covered in the final report, based on the scope agreed by the MSG resulting from the Inception Workshop.

2. Additional information was requested from the selected companies and government entities. Part of the Independent Administrator's inception work consisted of defining the scope of the additional information during the preliminary meetings and the Inception Workshop held on 25 June 2017. Further comments were subsequently received from Civil Society and reviewed by KPMG for potential incorporation in the scope and subsequent MSG meeting held on 16 June 2017.

KPMG summarised the consensus on the additional information required in accordance with the Standard and the participants in the workshop, and proposed templates and related thresholds where applicable. Once the proposed templates were agreed upon with the M.EITI, M.EITI uploaded these templates to the E-Reporting IT platform for the entities selected for the reconciliation and collected responses from those entities.

The structure of the reporting templates distributed to the selected companies and government entities is presented in Appendix 1 and Appendix 2.

### 3.2.2 Data comparison

As noted in Section 3.2.1.1, KPMG received initial government and company data from M.EITI in two Excel spreadsheets. The spreadsheets were both set up to include the 44 key revenue streams for which M.EITI reporting is required by M.EITI (mandatory), as well as the 19 revenue streams with voluntary M.EITI reporting. KPMG tested the download to Excel from the M.EITI E-Reporting system by selecting 15 companies and 10 government entities on a random sample basis and comparing the data between Excel and the M.EITI E-Reporting system including the key revenue streams reported by those companies and government entities.

KPMG initially compared government reported and company reported data for the selected 17 national and 9 sub-national revenue streams for each of the selected 213 companies in order to identify initial discrepancies as a starting point for the reconciliation.

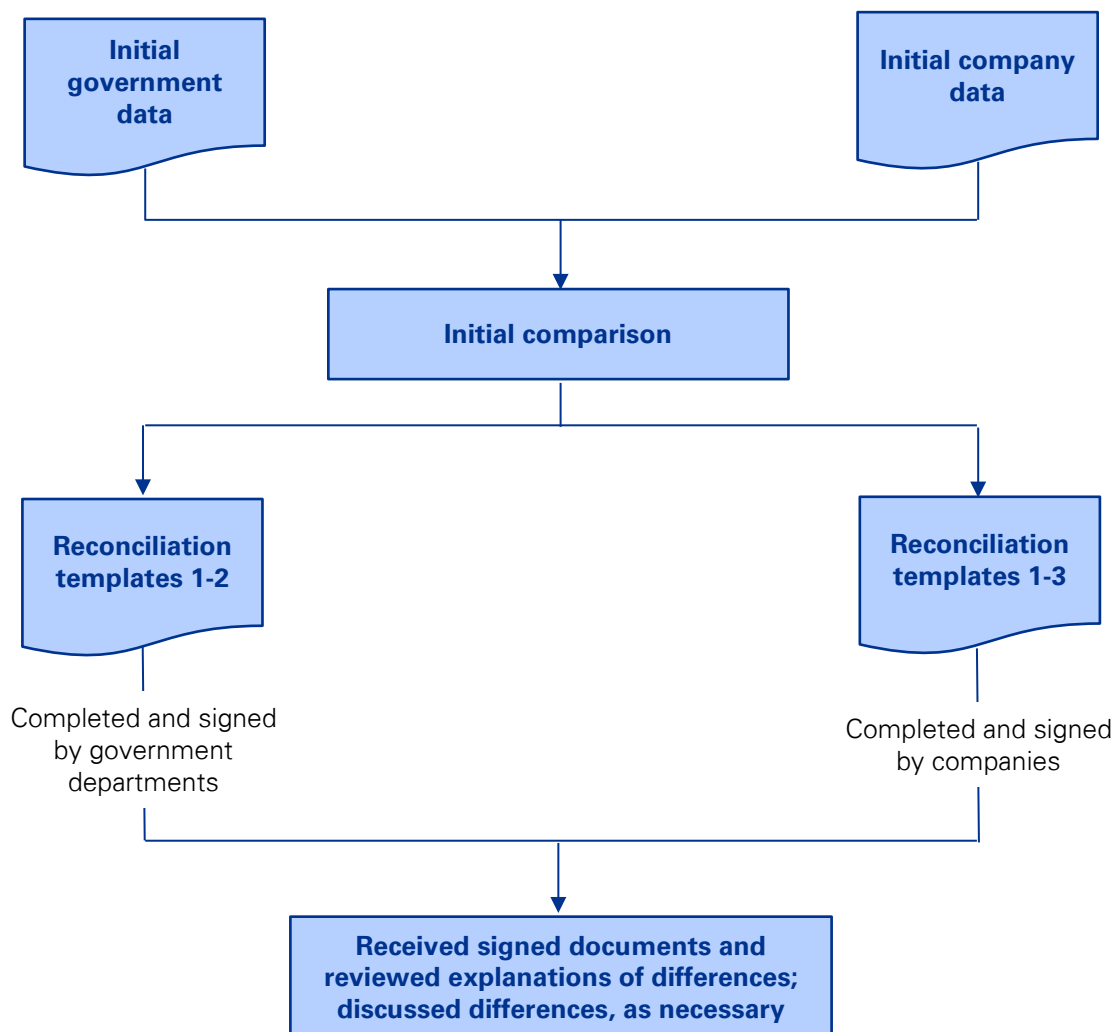
### 3.2.3 Data reconciliation

After the data comparison, initial discrepancies were identified. KPMG distributed an additional reconciliation template to entities showing the values reported initially by each entity selected for reconciliation (both company and government data) and asked entities to confirm whether numbers stated in the additional reconciliation template agreed with numbers initially reported by each entity (so providing some assurance on the data).

KPMG also asked the selected companies and government entities to provide further information on payments for those amounts where differences between company reported and government reported data had been identified. The respective templates with information on payments also requested a signature of the responsible person from each entity.

The responses were collected by KPMG directly from companies and government entities, the payment information was summarised, and initial differences were adjusted in accordance with the additional payment information and explanations provided by the entities.

The reconciliation process is presented in a flow-chart below.



Explanations of differences arising from the reconciliation in the company reported and government reported data fell primarily into the following types:

- A company did not report a payment to M.EITI Secretariat in E-Reporting;
- Payments were over-reported by companies;
- Payments were reported in the wrong receipt categories;
- Returned payments were not adjusted in the company reporting;
- Payments were made on behalf of another company;
- Payments related to activities other than EI (e.g. construction);
- Netted-off amounts were included into payments;
- Companies included in the government reported data did not have extracting activity in 2016;
- Some government entities reported in MNT whereas initial templates requested information to be reported in MNT thousands;
- Payments were made in the previous year but included by the companies in the current year.

### 3.2.4 Level of information disaggregation (REQ 4.7)

At a minimum it is required that data be presented by individual company, government entity and type of revenue stream. In this report key revenue streams are also broken down to national and sub-national levels following a request by the MSG. KPMG disaggregated information by aimag and Ulaanbaatar district to ease the sorting of information when needed by the M.EITI.

The EITI Standard also requires reporting at project level. In Mongolia companies and government entities usually do not allocate government payments to each individual project. As a result, in this report the data is not presented by project level.

Contextual information focuses on the sub-national level, including disaggregation by aimag and soum, where available.

### 3.2.5 Safeguarding confidential data

KPMG adopted the following necessary steps to safeguard confidential information and data that it received from the reporting entities.

- Electronic correspondence with companies and government entities was conducted via a special email address created only for the EITI project, and the list of employees with access to this email account was restricted;
- All electronic information received from entities was saved in a folder with restricted access;
- Physical security to paper documents was provided for by keeping the documents locked up when not in use;
- All phone calls with entities were performed from a restricted access area;
- All employees involved into the EITI project were instructed on the importance of non-disclosure of confidential information; and
- KPMG policies, professional duties and ethics require confidentiality of all such data by all staff.

## 3.3 Reconciliation approach

### 3.3.1 Materiality threshold for companies

For the 2016 M.EITI Report, as agreed with the MSG during the Inception Workshop, KPMG developed separate thresholds for the national and sub-national levels. Having separate thresholds for national and sub-national levels was a consensus reached during the workshop as a response to concerns raised by some MSG members about usefulness of the M.EITI Report for sub-national stakeholders. Further details on the materiality thresholds are given in Section 2.3.1.1.

#### 3.3.1.1 Individual selection

This group comprises companies with the highest reported payments, for which an individual reconciliation for each company was considered appropriate. The information below is based on the government reported data.

Level	Materiality threshold (MNT)	Number of companies
National	250 million and above	128
Sub-national	100 million and above	43

*Individual reconciliation at national level:* companies with key national revenue streams of MNT 250 million and above constituted 96.3% of the total key national revenue streams. Reconciliations for each of these 128 companies were completed at the individual company level. Please refer to Section 3.1 for details of distributions to determine the materiality threshold.

*Individual reconciliation at sub-national level:* companies with key sub-national revenue streams of MNT 100 million and above constituted 92.6% of total key sub-national revenue streams. Reconciliations for each of these 43 companies were also completed at the individual company level. Please refer to Section 3.1 for details of distributions to determine the materiality threshold.

#### 3.3.1.2 Sampling selection

The sampling method covered companies with less material reported payments, for which the reconciliation was performed on a sample basis. KPMG applied a risk-based approach for refinement of the company selection. The risk-based approach included consideration of the changes in revenue streams from certain companies against the prior year reporting, as requested by the MSG in the Inception Workshop. The information below is based on government reported data.

Level	Materiality threshold (MNT)	Number of companies
National	More than 50 million and less than 250 million	255
Sub-national	More than 30 million and less than 100 million	39

*Sampling reconciliation at national level:* companies with total key national revenue streams of more than MNT 50 million but less than MNT 250 million were sampled using a risk-based approach. There were 255 such companies. Please refer to Section 3.1 for details of distributions to determine the materiality threshold.

When added to the 128 individually reconciled companies described above in Section 3.3.1.1 (383 in total), the revenue streams from these companies brought coverage to 98.8% of the total reported key national revenue streams.

When selecting companies to be reconciled individually within the sampled population, KPMG compared 2016 and 2015 key national revenue streams amounts and selected those companies where any of the reported payments that related to business activities (e.g. Corporate income tax, VAT, Royalty fees, Social and health insurance) decreased by more than 10%, the companies' data submitted to M.EITI E-Reporting system deviated significantly from the government data by more than 50%, giving additional attention to companies with Type A (production) licences. As a result, 67 companies were selected for individual reconciliation based on these criteria.

43 out of the tranche 2 population of 255 companies were thus ultimately selected for individual reconciliation.

Sampling reconciliation at sub-national level: companies with total key sub-national revenue streams with more than MNT 30 million but less than MNT 100 million were sampled using a risk-based approach. There were 39 such companies. Please refer to Section 3.1 for the details of distributions to determine the materiality threshold.

When added to the 43 individually reconciled companies described above in Section 3.3.1.1 (82 in total), reconciliation work over the key sub-national revenue streams of these companies brought coverage to 96.3% of the total government reported key sub-national revenue streams.

When selecting companies to be reconciled individually, KPMG compared 2016 and 2015 key sub-national revenue streams amounts and selected those companies where any of the reported payments that related to business activities (e.g. fees for water usage, fee for use of mineral resources) decreased by both more than 10%, the companies' data submitted to M.EITI E-Reporting system deviated significantly from the government data by more than 50%, giving additional attention to companies with Type A (production) licences. As a result, 13 companies were selected for individual reconciliation based on these criteria.

13 out of the tranche 2 population of 39 companies were thus ultimately selected for individual reconciliation.

Although a risk based selection creates a sample size of companies to reconcile and not all companies are covered individually, a risk based selection covers a bigger range of companies in an effective way as it is targeted towards the high risk companies operating in the mining industry (having Type A licences). This allows Independent Administrator to expand the scope of work of the reconciliation in an efficient manner, covering a wider group of companies, without losing the overall objectives and quality of reconciliation.

### 3.3.2 Materiality threshold for selection of key revenue streams

Using a similar approach as was applied to select the number of companies to be reconciled, KPMG aimed for 99% of total key revenue streams coverage in order to set a threshold for the selection of key revenue streams. In the selection process, both the company and government reporting were used, since some of the government entities did not complete their parts of E-Reporting and therefore information concerning certain types of revenue streams was omitted in the government data.

Out of 44 key revenue streams which are described above, 31 are collected at national level, and 13 at sub-national level. At national level, the 17 largest revenue streams constitute 99% of the total key national revenue streams. At sub-national level, the 9 largest sub-national revenue streams account for 99% of the total key sub-national revenue streams.



### 3.3.3 Threshold for minor differences

For each receipts category, a difference between government data and company data below MNT 500 thousand was considered to be very minor, meaning that detailed analysis was performed only for differences above MNT 500 thousand.

### 3.3.4 Assurance procedures (REQ 4.9)

The EITI Standard requires that a credible assurance process applying international standards should be in place.

For the 2016 process, KPMG requested various representation letters and audit reports to strengthen the accuracy and completeness of the information reported. A detailed description of the assurance procedures performed by KPMG is provided below.

The approach adopted for the 2016 M.EITI Report incorporated constraints existing in Mongolia, unsufficiencies noticed during the previous reconciliation and comments that arose during validation of the 2014 M.EITI Report. The three main objectives, based on the EITI requirements on assurance, are as follows:

- Examine audit and assurance procedures in companies and government entities participating in the EITI reporting process, and, based on this examination, agree which information should be provided by the participating companies and government entities to the Independent Administrator (IA) to assure the credibility of the data.
- The IA to provide in the M.EITI Report an assessment of comprehensiveness and reliability of the financial data, including an informative summary of the work performed by the IA and the limitations of the assessment provided.
- The IA to provide an assessment of whether all material entities provided the requested information. Any gaps or weaknesses in reporting need to be disclosed, including naming non-complying entities and an assessment of whether this issue had a material impact on the comprehensiveness of the report.

This approach was discussed during the IA's Inception Workshop as a response to recommendations in the 2015 M.EITI Report (concerning the issue of considering assurance). A description of the methodology was then presented and communicated to the M.EITI Secretariat subsequent to the Inception Workshop held on 25 June 2017.

A comprehensive approach developed for the 2016 M.EITI Report based on the EITI Standard, and adopted by the MSG in the Inception Workshop is set out in the following sub-sections.

#### 3.3.4.1 Step 1 – Initial assessment of the Existing Controls and Audit Framework and the Initial Assessment of Assurance

The IA applied its professional judgement to assess the extent to which reliance can be placed on the Existing Controls and Audit Framework (ECAAF) of (i) the companies and (ii) SOEs and government entities. This step helps in determining the Initial Assessment of Assurance (IAA) for each of the reporting entities (companies, SOEs, national and sub-national government entities).

In short, when the ECAAF is rated low, the IAA is rated low (i.e. low assurance).

The IAA assessment is based on the key factors such as accounting standards applied (international standards, local reliable standards, other standards), existing governance and internal controls, audit standards applied where the entities are audited, and the reliability of the auditor where an auditor exists.

Usually, in most countries, local and central government entities are in a low range of the rating for the ECAF and thus for the IAA.

For the national and sub-national government entities, the criteria above are mostly within the low range, resulting in low ECAF and low IAA. KPMG and the MSG considered the scope of MNAO work for 2016 and concluded that this would be consistent with the low ECAF (as MNAO's scope was limited). Therefore, the MNAO's role should be increased in the future. According to Order #43 of the MoF dated 5 February 2016, the State Secretary and the Director General of Budget Policy Planning Department of the MoF are required to review and sign on data on revenue streams initially reported to the M.EITI E-Reporting system. In addition, both national and sub-national government entities should sign on the templates submitted to the IA during the reconciliation procedure. The status of the national and sub-national government entities' signed templates is presented in Appendix 5.

Based on the above approach, the IA concluded that:

- for the following national and sub-national government entities, the ECAF and the IAA were considered as low, because no signed templates were received: Custom Office and Ministry of Environment and Tourism;
- for other national and sub-national government entities, the ECAF and the IAA were considered to be low to medium.

For SOEs, a classification was made based on the accounting standards applied (International Financial Reporting Standards, local GAAP), existing governance and internal controls, auditing standards applied where the entities are audited, and the reliability of the auditor where an auditor exists.

KPMG received the following data from 11 SOEs:

- two SOEs (Oyu Tolgoi LLC and Erdenet Mining Corporation LLC) have their IFRS financial statements audited by international audit firms;
- nine SOEs submitted IFRS financial statements audited by MNAO. Out of these nine SOEs, two SOEs (Shivee-Ovoo JSC and Baganuur JSC) make their financial statements publicly available together with the audit reports.

The ECAF and the IAA for the above SOEs were considered as medium.

KPMG was not able to reach one SOE (Gurvansaikhan LLC). Thus, the ECAF and the IAA were considered as low for this SOE.

For the companies, a classification was made based on the accounting standards applied (international financial reporting standards, local GAAP), existing governance and internal controls, audit standards applied where the companies are audited, and the reliability of the auditor where an auditor exists.

KPMG received the following data from 213 companies:

- 13 companies have their IFRS financial statements audited by international audit firms. out of which six companies make their financial statements publicly available together with the audit reports;
- 133 companies have their financial statements audited by local audit firms.

The ECAF and the IAA for the above companies were considered as medium.

The ECAF and the IAA for the companies that did not provide audit reports (34 companies) were considered as low.

Government agency	Criteria for the ECAF and the IAA	
	Signed templates submitted to the IA	
	Yes	No
Presumed ECAF and IAA ratings	Low to Medium	Low
Company / SOE	Audited	
	Yes	No
The ECAF and the IAA ratings	Medium	Low

Please refer to Appendix 12 for details about the companies which submitted their audit reports to the M.EITI E-Reporting system.

### 3.3.4.2 Step 2 – Final assessment of assurance

KPMG proposed, and the MSG agreed, during the Inception Workshop, that the entities selected for the reconciliation should provide the following assurance supports:

All companies, national and sub-national government entities were requested to provide a representation letter, confirming that the declared data, both the data uploaded in the M.EITI E-Reporting system and the data stated in the additional templates, is “comprehensive, accurate and based on existing transactions related to the year 2016”.

The IA and the MSG analysed the option of having external auditors signing-off specifically on the data submitted by the companies selected for reconciliation and on the representation letters. Certain EITI countries successfully apply such procedures under the International Standard on Assurance Engagements or ISAE 3000 attestation reports in a form of agreed upon procedures for this purpose. KPMG introduced this innovation in Mongolia for the 2014 M.EITI Report, as agreed in the Inception Workshop at that time, but the request was unsuccessful for the 2014 M.EITI Report and the 2015 M.EITI Report. The companies explained that they had no budget available to pay for such attestation reports, and reliable audit firms would not issue attestation reports without performing the necessary assurance procedures.

Based on this specific experience in Mongolia, the MSG agreed that for 2016 neither attestation reports from external auditors, nor auditors’ signatures on the representation letter are realistic in Mongolia and should therefore not be requested, leading to potentially less assurance in Mongolia.

All SOEs making material payments, i.e. selected for reconciliation should provide their latest audited financial statements together with audit reports – preferably for 2016. In cases where SOEs prepare financial statements both under IFRS and under local GAAP requirements, IFRS financial statements audited by international audit firms are more preferable than local GAAP financial statements or IFRS financial statements audited by local firms.

Thus, the selected SOEs were requested to upload their financial statements together with audit reports to the M.EITI E-Reporting system. Where certain SOEs were known to have been audited by international audit firms, they were requested to provide such audit reports.

All selected companies having their accounts audited should provide their latest audit reports – preferably for 2016. In case the companies prepare financial statements both under IFRS and under

local GAAP requirements, IFRS financial statements audited by international audit firms are more preferable than local GAAP financial statements or IFRS financial statements audited by local firms.

The IA considered the option of obtaining audited financial statements from private companies selected for reconciliation. However, based on our professional experience in Mongolia, items in private companies' financial statements are aggregated and minimal information that can provide data assurance on data provided in the scope of EITI can be found without further analysing the detailed bookkeeping and transactions. As such, we concluded that such information is unfruitful for data assurance purposes.

Thus, the selected companies were requested to upload their audit reports to the M.EITI E-Reporting system or to deliver to the IA. Where certain companies were known to have been audited by international audit firms, they were requested to provide such audit reports.

During the Inception Workshop, KPMG proposed that specific entities which are considered as risky (as defined by the MSG), should be subject to a higher level of scrutiny, including request to submit an auditors' specific attestation, specific interviews, and / or analysis of specific transactions within their accounts. However, this procedure was not finally implemented due to an absence of a list of specific risky (as defined by the MSG) entities.

KPMG analysed the data received from government agencies and from companies as described above and applied the following criteria for assurance:

- Representation letter duly provided, completed as per the template requested, duly signed by the Board representative, or by the President, or by the CEO, or by the executive management of the company or SOE; duly signed by the General management representative, or by the Minister, or by the central government administration representative, or by the head of the local government.  
Absence of a representation letter or absence of key words such as "comprehensive", "accurate" and "based on existing transactions" reduced the level of assurance.
- Existence of audit reports for companies and SOEs, quality of the auditor, audit and accounting standards applied.  
Absence of audit reports or reporting under standards different from IFRS, reduced the level of assurance. Modified audit reports also reduced the level of assurance.

The above scheme was developed by KPMG by applying the risk based approach and by taking into account the Mongolian context, and the scheme was discussed and agreed by the MSG on 25 June 2017 in Ulaanbaatar during the Inception Workshop.

At the end of Step 2, the level of assurance for each selected entity was graded:

- Low level of assurance – entities that are not audited and did not provide representation letters, or entities that are audited by Tier 3 local audit firms and did not provide representation letters or provided incomplete representation letters.
- Medium level of assurance
- High level of assurance – entities that provided unmodified representation letters signed by the respective representatives as stated above and provided unmodified audit reports issued by international audit firms, with IFRS financial statements for SOEs specifically.

The assessment of assurance for 2016 is presented in the table below:

Companies and SOEs		2016		
Companies provided	Number of companies	Total revenue streams, MNT million	Percentage, based on revenue streams	Final assessment
No audit report and no representation letter	24	5,356	0.50%	Low
Provided representation letter, but no audit report	43	91,969	8.58%	Medium / Low
Provided representation letter and unmodified audit report issued by Tier 1 companies	14	448,848	41.90%	High
Provided representation letter and unmodified audit report issued by Tier 2 and 3 companies	112	333,790	31.16%	Medium
Provided audit report issued by Tier 1 and 2 companies but no representation letter	6	2,635	0.25%	Medium / Low
Provided audit report issued by Tier 3 companies but no representation letter	10	4,759	0.44%	Low
Provided representation letter and modified audit report	4	183,974	17.17%	Medium / Low
<b>15.96%</b> of total number of companies	34	10,115	<b>0.94%</b>	<b>Sub-total Low</b>
<b>77.47%</b> of total number of companies	165	612,368	<b>57.16%</b>	<b>Sub-total Medium / Low</b>
<b>6.57%</b> of total number of companies	14	448,848	<b>41.90%</b>	<b>Sub-total High</b>
	<b>213</b>	<b>1,071,331</b>	<b>100%</b>	<b>Grand total</b>

Summary of the non-complying entities for 2016:

- 24 companies did not provide audit reports and representation letters, please refer to Appendix 4 and Appendix 12;
- 16 companies did not provide representation letters, but provided unqualified audit reports, please refer to Appendix 4 and Appendix 12;
- 4 companies provided representation letters but have qualified audit reports, please refer to Appendix 4 and Appendix 12;
- 11 companies provided modified representation letters, please refer to Appendix 4.

A summary of the estimated assessment of assurance for 2015 based on the data available from the 2015 M.EITI Report is presented in the table below for comparison purposes:

Companies and SOEs		2015		
Companies provided	Number of companies	Total revenue streams, MNT million	Percentage, based on revenue streams	Estimated assessment
21.78% of total number of companies	44	257,952	18.53%	Sub-total Low
72.28% of total number of companies	146	1,107,609	79.57%	Sub-total Medium / Low
5.94% of total number of companies	12	26,477	1.90%	Sub-total High
	<b>202</b>	<b>1,392,037</b>	<b>100%</b>	<b>Grand total</b>

A summary of the estimated assessment of assurance for 2014 based on the data available from the 2014 M.EITI Report is presented in the table below for comparison purposes:

Companies and SOEs		2014		
Companies provided	Number of companies	Total revenue streams, MNT million	Percentage, based on revenue streams	Estimated assessment
25.85% of total number of companies	61	59,920	3.79%	Sub-total Low
72.03% of total number of companies	170	1,504,010	95.05%	Sub-total Medium / Low
2.12% of total number of companies	5	18,298	1.16%	Sub-total High
	<b>236</b>	<b>1,582,228</b>	<b>100%</b>	<b>Grand total</b>

### 3.3.4.3 Step 3 – Assessing improvements in reporting

During the Inception Workshop, the following objectives were discussed with the MSG:

- to assess the quality of data based on the estimated weighted average Final Assessment of Assurance (FAA), as described above;
- to compute the weighted average FAA based on the individual relative weights of each type of company as provided in the table in 3.3.4.2 based on the total number of companies and the total revenues declared;
- to seek to obtain a progressive increase in the weighted average of assurance from year to year through improvements in the level of assurance – a reduction of the volume of low level of the FAA;
- to estimate the weighted average FAA based on the past two EITI reports. Using a sample of selected data available from the 2014 and 2015 M.EITI Reports, KPMG reassessed the level of assurance using the developed methodology;
- to analyse specifically the risky companies as determined during the Inception Workshop. This procedure was not finally implemented due to an absence of a list of specific, risky companies.



During the Inception Workshop, the MSG decided that M.EITI needs a yearly progressive improvement of the weighted average FAA:

- for the low weighted average FAA: it should be compulsory to obtain a yearly decrease of this ratio. Based on a limited sample of entities, an approximate estimation of weighted average low FAA based on the total revenue amounted to 3.79% for the 2014 M.EITI Report and 18.53% for the 2015 M.EITI Report. The target for low assurance for the 2016 M.EITI Report should be a decrease compared to the 2015 M.EITI Report and be a maximum 18% based on the total number of companies.
- the actual low weighted average FAA decreased by 17.59% while the actual high weighted average FAA increased by 40%. Actual low weighted average FAA based on the number of companies was 15.96% in 2016.

#### 3.3.4.4 Conclusion – Assessment of the overall comprehensiveness and reliability of reconciled data

Initial Assessment: The IA applied its professional judgement to assess the extent to which reliance can be placed on the Existing Controls and Audit Framework of the companies, SOEs and government entities to determine the Initial Assessment of Assurance for each of the reporting entities. The IA found the Existing Controls and Audit Framework and the Initial Assessment of Assurance:

- For government entities to be low to medium with the exception of Customs Office and Ministry of Environment and Tourism, which are considered to be low;
- For SOEs to be medium; and
- For companies that did not provide audit reports (34 companies) to be low and remaining 179 companies to be medium.

Final Assessment: Based on the MSG agreed assurance procedures, the IA conducted the Final Assessment of Assurance after the reconciliation of the financial data. For companies and SOEs, 41.90% of the total revenues reconciled was assessed within high range, 57.16% of the total revenues reconciled was assessed within medium/low range and only 0.94% of the total revenues reconciled was assessed within low range. For government entities, although the majority of the entities remained within low to medium range, due to reconciliation process between payment amounts by companies and SOEs and received amounts by government entities, when data assurance of the companies and SOEs increased, by principle, data assurance of the government increased. Therefore, the IA concluded that the final assessment of the overall comprehensiveness and reliability of reconciled financial data from the companies, SOEs and government entities to be satisfactory.

For more details, please refer Section 3.3.4.1 and 3.3.4.2.

## 3.4 Reporting entities and receipts to be covered

### 3.4.1 Government entities

#### 3.4.1.1 List of government entities for reconciliation (REQ 4.1c)

KPMG identified and listed government entities that received material payments from extractive industry companies. The list below includes government entities that received key revenue streams selected for reconciliation as set out in 3.3.2.

Government entities	Revenue streams
CO	Customs duty, customs service fee, excise on petrol and diesel fuel
GDT	CIT, VAT, fee for exploitation of mineral resources (royalties), fee for air pollution
Local Governments	50% contribution to environmental protection special account, supports received as per PSA, fee for recruiting foreign experts and workers, fee for water use, land fee, real estate tax, tax on vehicles and self-moving mechanisms, fees for use of mineral resources of wide spread
MRPAM	License fee for exploitation and exploration of mineral resources, Bonus for training as per PSA, Supporting payment to representative office as per PSA, Petroleum receipts of GoM from PSA, Royalty
MEGDT	50% contribution to environmental protection special account,
GALWS	Fee for recruiting foreign experts and workers
SSIA	Employers' social and health insurance
Other public agencies	Government agencies that received donations and supports

#### 3.4.1.2 Key revenue streams (REQ 4.1b)

KPMG received two reports of revenue stream amounts in Excel – a government report and companies' report - from the M.EITI on 22 June 2017. The government report was downloaded by M.EITI from the database summarizing the reporting templates uploaded by the government entities. The company report was downloaded by M.EITI from the database consolidating the reporting templates uploaded by individual companies.

The government report included 2,079 companies whereas the company report included only 1,113 companies. The reports were both set up to include the 44 key revenue streams for which M.EITI reporting is required by M.EITI (mandatory), as well as the 19 revenue streams with voluntary M.EITI reporting. 13 of these 44 key revenue streams are reported by local government entities.

Considering the number of companies and data included, the government report appeared to be more complete as a basis for defining materiality and thresholds for the compulsory receipts, as shown below:

Report	Number of companies	Mandatory key revenue streams Categories	(MNT mill)	All revenue streams (MNT mill)
Government	2,079	44	1,214,670	1,222,010
Companies	1,113	44	1,092,223	1,098,957
National level revenue streams		31		
Sub-national level revenue streams		13		
<b>Total</b>		<b>44</b>		

KPMG used the government reported data, which includes total mandatory government key revenue streams from EI of MNT 1,167 billion, and considered all of the initial 44 key mandatory revenue streams in the determination of the materiality threshold as set out in Section 3.3.2.

There are 31 key revenue streams at the national level and 13 key revenue streams at the sub-national level. Please refer to Appendix 3 for a list of the revenue streams at national and at sub-national levels.

### 3.4.1.3 Material revenue streams (REQ 4.1b)

Using the approach described in Section 3.3.2, the following receipts were selected for individual reconciliation:

#	Threshold level	Revenue streams	Data Source
1	National	Corporate income tax	Both sources
2	National	Customs duty	Both sources
3	National	Value added tax	Both sources
4	National	Excise on petrol and diesel fuel	Both sources
5	National	Fee for exploitation of mineral resources (royalties)	Both sources
6	National	Licence fee for exploitation and exploration of mineral resources	Both sources
7	National	Fee for recruiting foreign experts and workers	Both sources
8	National	License fee for exploitation and exploration of oil	Both sources
9	National	Fee for air pollution	Both sources
10	National	Employers' social and health insurance	Both sources
11	National	Customs service fee	Both sources
12	National	Bonus for training as per PSA	Both sources
13	National	Supporting payment to representative office as per PSA	Both sources
14	National	Petroleum receipts of GoM from PSA	Company data
15	National	Royalty	Both sources
16	National	50% Contribution to environmental protection special account	Both sources
17	National	Total donations and support given to public agencies	Company data
18	Sub-national	Real estate tax	Both sources
19	Sub-national	Tax on vehicles and self-moving mechanisms	Both sources
20	Sub-national	Land use fee	Both sources
21	Sub-national	Fee for water use	Both sources
22	Sub-national	Fee for use of mineral resources of wide spread	Both sources
23	Sub-national	Fees for recruiting foreign experts and workers	Company data
24	Sub-national	Support received as per PSA	Both sources
25	Sub-national	50% Contribution to environmental protection special account	Both sources
26	Sub-national	Total donations and support given to public agencies	Company data

## 3.4.2 Companies

### 3.4.2.1 Companies selected for reconciliation

In total, after eliminating overlaps, 213 companies were selected for individual reconciliation for 2016. Please refer to Appendix 8 for a detailed list of the selected companies for reconciliation.

## 4 Reconciliation Results

### 4.1 Reconciliation results

#### 4.1.1 Summary of reconciliation and differences

A summary of the reconciliation results is shown below:

Reporting by:	Number of companies	Selected key revenue streams (MNT mill)		
		National level	Local level	Total
Initial reporting				
Government	213	1,125,545	41,578	1,167,123
Companies	173	968,583	93,264	1,061,847
Initial reconciliation difference	40	156,962	(51,686)	105,276
Reconciliation				
Adjustments government		(129,281)	48,306	(80,975)
Adjustments companies		12,184	(2,700)	9,484
Government after adjustments		996,264	89,884	1,086,148
Companies after adjustments		980,767	90,564	1,071,331
Unreconciled difference including companies that did not reply to the reconciliation		15,497	(680)	14,817
less companies which did not send reconciliation information templates		(2,232)	37	(2,195)
less government entities which did not send reconciliation information templates		(12,548)	-	(12,548)
Final net unreconciled difference		717	(643)	74

The net variance of MNT 74 million is 0.006% of initial government reported selected key revenue streams (MNT 1,167,123 million). Explanations of differences arising from the reconciliation in the company and government data fell primarily into the following types:

- A company did not report a payment to M.EITI Secretariat in E-Reporting;
- Payments were over-reported by companies;
- Payments were reported in the wrong receipt categories;
- Returned payments were not adjusted in the company reporting;
- Payments were made on behalf of another company;
- Payments related to activities other than EI (e.g. construction);
- Netted-off amounts were included into payments;
- Companies included in the government reported data did not have extracting activity in 2016;
- Some government entities reported in MNT whereas initial templates requested information to be reported in thousands of MNT.
- Payments were in the previous year but included by the companies in the current year.

#### 4.1.2 Coverage of the reconciliation exercise (REQ 4.9)

At the national and sub-national levels, KPMG performed individual reconciliation work on 213 companies. At the Inception Workshop, it was agreed with the MSG to consider, under the agreed approach, coverage of 98.6% of the key revenue streams. This consisted of both individual selection for tranche 1 and risk-based sampling analysis for tranche 2. The materiality thresholds applied for companies to achieve this result through the agreed approach are set out below and in Section 3.3.1.1 (individual selection) and Section 3.3.1.2 (sampling method).

Coverage of the national level key receipts is presented in the table below:

National level		Key revenue streams coverage		
Reconciliation type	Threshold (MNT)	No. companies	Percent	MNT mill
Individual level	250 million and above	128	96.32%	1,123,696
Sampling	More than 50 million & less than 250 million	255	2.50%	29,177
<b>Total</b>		<b>383</b>	<b>98.82%</b>	<b>1,152,873</b>

Coverage of the sub-national level receipts is presented in the table below:

Sub-national level		Key revenue streams coverage		
Reconciliation type	Threshold (MNT)	No. companies	Percent	MNT mill
Individual level	100 million and above	43	92.59%	49,588
Sampling	More than 30 million & less than 100 million	39	3.70%	2,488
<b>Total</b>		<b>82</b>	<b>96.29%</b>	<b>52,076</b>

#### 4.1.2.1 Overlap between national and sub-national levels in the selection

Some companies overlapped between the national level and sub-national level in the sample, so that although 383 companies were selected at national level and 82 companies were selected at sub-national level, after elimination of overlap this reduced to 321 companies. The approach and the resulting number of companies are summarised below.

Number of companies assessed for reconciliation		
Type	Considered	Reconciled
<b>National level</b>		
Individual (tranche 1)	128	128
Sampling (tranche 2)	255	67
<b>Sub-total</b>	<b>383</b>	<b>195</b>
<b>Sub-national level</b>		
Individual (tranche 1)	43	43
Sampling (tranche 2)	39	13
<b>Sub-total</b>	<b>82</b>	<b>56</b>
Less overlap	(144)	(38)
<b>Companies considered under tranches 1 and 2</b>	<b>321</b>	<b>213</b>

For tranche two, risk based sampling, we considered 255 companies at national level and 39 companies at sub-national level as a population from which to select the risk based sample.

#### 4.1.2.2 National level reconciliation results by revenue stream

MNT million

No	Receipt categories	Initial			Adjustment		After adjustment			Less companies not sent reconciliation templates	Less gov. entities which did not send reconciliation templates	Final net unreconciled difference
		Gov. entities	Companies	Difference	Gov. entities	Companies	Gov. entities	Companies	Difference			
1	Corporate income tax	224,919	226,488	(1,569)	3,849	2,322	228,768	228,810	(42)	10	-	(32)
2	Customs duty	41,879	54,181	(12,302)	(9,426)	(2,537)	32,453	51,644	(19,191)	(12)	(19,191)	(12)
3	Value added tax	162,574	96,683	65,891	(44,545)	3,185	118,029	99,868	18,161	(9)	25,894	(7,742)
4	Excise on petrol and diesel fuel	65,564	1,299	64,265	(63,453)	15	2,111	1,314	797	-	-	797
5	Fee for exploitation of mineral resources (royalties)	266,222	239,885	26,337	(30,296)	(4,869)	235,926	235,016	910	(917)	-	(7)
6	License fee for exploitation and exploration of mineral resources	16,211	10,250	5,961	(1,418)	3,803	14,793	14,053	740	(923)	-	(183)
7	Fee for recruiting foreign experts and workers	4,984	9,022	(4,038)	2,800	(1,232)	7,784	7,790	(6)	-	-	(6)
8	License fee for exploitation and exploration of oil	1,149	470	679	-	181	1,149	651	498	(76)	-	422
9	Fee for air pollution	17,679	17,671	8	5	13	17,684	17,684	-	-	-	-
10	Employers' social and health insurance	138,897	122,557	16,340	(7,276)	8,976	131,621	131,533	88	(81)	-	7
11	Customs service fee	48,436	40,694	7,742	(31)	1,865	48,405	42,559	5,846	-	5,845	1
12	Bonus for training as per PSA	994	595	399	-	240	994	835	159	(159)	-	-
13	Supporting payment to representative office as per PSA	2,050	1,772	278	-	359	2,050	2,131	(81)	(67)	-	(148)
14	Petroleum receipts of GoM from PSA	263	126,105	(125,842)	133,435	-	133,698	126,105	7,593	-	-	7,593
15	Royalty	133,698	20,116	113,582	(113,100)	-	20,598	20,116	482	-	-	482
16	50% Contribution to environmental protection special account	-	623	(623)	-	(166)	-	457	(457)	2	-	(455)
17	Total donations and supports given to public agencies	26	172	(146)	175	29	201	201	-	-	-	-
<b>Total</b>		<b>1,125,545</b>	<b>968,583</b>	<b>156,962</b>	<b>(129,281)</b>	<b>12,184</b>	<b>996,264</b>	<b>980,767</b>	<b>15,497</b>	<b>(2,232)</b>	<b>(12,548)</b>	<b>717</b>

#### 4.1.2.3 Sub-national level reconciliation results by revenue stream

MNT million

No	Receipt categories	Initial difference			Adjustment		After adjustment			Less companies not sent reconciliation templates	Final net unreconciled difference
		Gov. entities	Companies	Difference	Gov. entities	Companies	Gov. entities	Companies	Difference		
1	Real estate tax	7,490	18,415	(10,925)	11,417	502	18,907	18,917	(10)	-	(10)
2	Tax on vehicles and self-moving mechanisms	317	1,381	(1,064)	1,093	59	1,410	1,440	(30)	(1)	(29)
3	Land use fee	8,758	14,068	(5,310)	3,499	(1,802)	12,257	12,266	(9)	(1)	(8)
4	Fee for water use	19,980	35,543	(15,563)	16,607	1,052	36,587	36,595	(8)	(2)	(6)
5	Fee for use of mineral resources of wide spread	3,309	2,833	476	(2,570)	(2,035)	739	798	(59)	(28)	(31)
6	Fees for recruiting foreign experts and workers	1	1,935	(1,934)	416	(1,568)	417	367	50	-	50
7	Support received as per PSA	690	166	524	394	813	1,084	979	105	-	105
8	50% Contribution to environmental protection special account	43	472	(429)	57	(319)	100	153	(53)	(2)	(51)
9	Total donations and supports given to public agencies	990	18,451	(17,461)	17,393	598	18,383	19,049	(666)	(3)	(663)
<b>Total</b>		<b>41,578</b>	<b>93,264</b>	<b>(51,686)</b>	<b>48,306</b>	<b>(2,700)</b>	<b>89,884</b>	<b>90,564</b>	<b>(680)</b>	<b>37</b>	<b>(643)</b>



#### 4.1.3 Comprehensiveness and reliability of data presented (REQ 4.9b)

After receiving the revised data in Excel, KPMG carried out spot-checks over amounts in the Excel companies and government reported data files to identify these agreed with the information in the online M.EITI E-Reporting system. No differences were identified for the selected items.

KPMG additionally sought to perform various further procedures to assess comprehensiveness and reliability of data such as requesting representation letters and attestation reports, and reviewing company audit reports. The results of these procedures are described in detail in Section 3.3.4.1.

## 4.2 Unresolved differences and unreported companies (REQ 4.9)

After reconciling the payment data reported by companies and government entities, some differences remained. The amount of unreconciled differences amounted to MNT 14,817 million, which equals 1.3% of the selected key revenue streams. The reconciled amount reported by the government was *higher* by MNT 14,817 million than the reconciled amount reported by companies.

This difference included entities which did not provide additional reconciliation templates, and therefore those payments could not be reconciled. MNT 14,743 million of the difference was attributable to those companies which did not provide additional reconciliation templates.

After excluding the companies which did not provide additional reconciliation templates, the remaining unreconciled difference was **MNT 74 million**. The reconciled amount reported by the government after excluding companies without reconciliation replies was *higher* by MNT 74 million than the reconciled amount reported by companies after excluding the entities without reconciliation replies.

### 4.2.1 Unresolved differences by selected key revenue streams

This section of the report summarizes unresolved differences by category after adjustments made to the initial differences in the reconciliation process.

				MNT million
Selected key revenue streams		Initial differences	Adjustments	Unresolved differences
National	Corporate income tax	(1,569)	1,527	(42)
	Customs duty	(12,302)	(6,889)	(19,191)
	Value added tax	65,891	(47,730)	18,161
	Excise on petrol and diesel fuel	64,265	(63,468)	797
	Fee for exploitation of mineral resources (royalties)	26,337	(25,427)	910
	Licence fee for exploitation and exploration of mineral resources	5,961	(5,221)	740
	Fee for recruiting foreign experts and workers	(4,038)	4,032	(6)
	License fee for exploitation and exploration of oil	679	(181)	498
	Fee for air pollution	8	(8)	-
	Employers' social and health insurance	16,340	(16,252)	88
	Customs service fee	7,742	(1,896)	5,846
	Bonus for training as per PSA	399	(240)	159
	Supporting payment to representative office as per PSA	278	(359)	(81)
	Petroleum receipts of GoM from PSA	(125,842)	133,435	7,593
	Royalty	113,582	(113,099)	483
	50% Contribution to environmental protection special account	(623)	166	(457)
	Total donations and support given to public agencies	(145)	145	-
Sub-national	Real estate tax	(10,925)	10,915	(10)
	Tax on vehicles and self-moving mechanisms	(1,064)	1,034	(30)
	Land use fee	(5,310)	5,301	(9)
	Fee for water use	(15,563)	15,555	(8)
	Fee for use of mineral resources of wide spread	476	(534)	(58)

Selected key revenue streams		Initial differences	Adjustments	Unresolved differences
	Fees for recruiting foreign experts and workers	(1,934)	1,983	49
	Support received as per PSA	524	(419)	105
	50% Contribution to environmental protection special account	(429)	376	(53)
	Total donations and supports given to public agencies	(17,462)	16,795	(667)
<b>Total</b>		<b>105,276</b>	<b>(90,459)</b>	<b>14,817</b>
Less companies not provided reconciliation templates*		(2,250)	55	(2,195)
Less government entities not provided reconciliation templates**		(59,707)	47,159	(12,548)
<b>Net difference after deduction</b>		<b>43,319</b>	<b>(43,245)</b>	<b>74</b>

\* The unreported companies' payment amounts are taken from government reported data.

The principal reasons for remaining unreconciled differences were:

- Differences in methods used to estimate in-kind donations between government entities and companies led to different monetary values so that companies and government entities were not able to reconcile in-kind donations;
- Some companies refused to either report data or to reconcile data, and there is currently no legal requirement for companies to comply with M.EITI reporting in Mongolia;
- Government reported data received from aimags and districts not detailed enough in some cases to allow for reconciliation, or was not reported in the requested format even when further requested.

Please refer to Appendix 4 for details of responses received from companies and to Appendix 5 for details of responses received from government entities.

## 4.2.2 Unreported entities

### 4.2.2.1 Unreported government agencies

The list below presents information about government agencies that did not report initially to M.EITI and / or subsequently to the Independent Administrator.

No.	Government agency	Status of reporting
1	Customs Office	Did not report subsequently
2	Ministry of Environment and Tourism	Did not report initially nor subsequently

Note: The Ministry of Environment and Tourism provided official letter explaining that the 50% Contribution to environmental protection special account information at the company level cannot be provided to the third-party due to Clause 17.4 the Law on Deposits, Loans and Banking Transactions where it states that a bank statement shall be provided by the bank to the account holder at the request of the account holder.

Please refer to Appendix 5 for details of responses received from government entities.

#### 4.2.2.2 Unreported companies

The list below presents information about companies that did not report initially to M.EITI nor subsequently to the Independent Administrator, and were included in the reconciliation.

*MNT million*

No.	ID	Company name	*Selected key revenue streams
1	2059681	Khandgait gol LLC	1
2	2863847	Ankhai International LLC	974
3	5132053	Berkhresources LLC	310
4	5210402	Gan-Ilch LLC	318
5	5586119	Aqusora LLC	264
6	2562219	Bum-Arvai Invest LLC	1
7	2672731	Tesiin Khurd LLC	16
8	25000000	Mongolia Shin I Energy LLC	302
<b>Total</b>			<b>2,186</b>

*\* the selected key revenue streams data for companies which did not report their payments was extracted from the government reported data.*

We identified that some of the above companies were liquidated by the date of our procedures, while in some other cases contact details of the companies were not available and we were unable to contact them.

Please refer to Appendix 4 for details of responses received from companies.

#### 4.2.3 Issues, barriers and remedies

This section summarizes unresolved issues and barriers encountered during the work, together with remedial actions taken to minimize the effect of such issues and barriers. Recommendations relating to each matter below are included in Section 6.

##### 4.2.3.1 Instructions on payment data reporting to M.EITI secretariat

KPMG noted that some entities did not have a clear understanding of the EITI reporting process and the data required to be reported in the initial reporting templates as part of the M.EITI E-Reporting system. This resulted in numerous discrepancies between the initial companies reported data and government entities data. In addition, some companies informed us that they did not report to M.EITI in the E-Reporting system for the same reason.

After additional templates were distributed to the selected entities in the sample, KPMG received many telephone calls from entities asking why these additional templates need to be completed and for clarifications on the additional templates. KPMG provided extensive guidance on how to fill in the additional templates, which was time-consuming and substantially increased the overall reconciliation effort and timetable.

##### 4.2.3.2 Emphasis on the importance of the M.EITI Report for EI companies

Many EI companies appear not to have a good understanding of the importance and advantages of the M.EITI Report and the requirements of the EITI Standard, nor the reasons for providing information to the Independent Administrator. In the initial payment data, over 966 companies did not submit information to M.EITI Secretariat for 2016. During the reconciliation process, some companies at first

refused to provide any of the requested information. After KPMG explained the requirements of the EITI Standard, the importance of the M.EITI Report and the purpose of the reconciliation process, the number of such companies significantly decreased.

Out of the 213 companies selected for reconciliation:

- 8 companies did not initially (or subsequently) provide any payment or other data at all;
- 5 companies initially reported but did not provide subsequent information for reconciliation as requested in the additional templates;
- 16 companies did not provide additional contextual information although they did provide reconciliation data.

We made significant efforts also in these areas. Similar to the issue described in Section 4.2.3.3, the reconciliation process consequently involved substantially increased time and resources to resolve these issues.

#### 4.2.3.3 Distinguishing payments related to extractive activities

Some amounts in the government reported payment data were higher than in the companies reported data due mainly to the following reasons:

- The government reported data included all companies holding exploration or production licences, even if the companies did not engage in any exploration or extraction activity in 2016; by contrast, these companies did not report to M.EITI.
- If a company was classified by the government as an EI entity (i.e. holding exploration or production licences), all receipts from this company were included in the government report, even if extracting activity was not the main business of the company. As such, receipts unrelated to EI activities could be included.
- Some government entities reported in MNT whereas the initial templates requested information to be reported in thousands of MNT.

The above three factors resulted in significant differences during the initial comparison between the company and government reported payment information. In order to reconcile the amounts, KPMG sent additional reconciliation templates to the selected companies and relevant government entities.

#### 4.2.4 Limitations to the work done

For the 2016 M.EITI Report KPMG requested companies to provide copies of their 2016 annual financial statements and audit reports, and also signed representation letters based on the template developed by the Independent Administrator.

Annual audit reports were provided by 146 companies and unmodified representation letters were provided by 166 companies out of the 213 included in the reconciliation. In Mongolia there is no legal requirement for companies to participate in the EITI process, nor to submit ISAE 3000 type attestation letter for the EITI purposes. However, one company provided agreed upon procedures reports verifying amounts reported to M.EITI.

Please refer to Appendix 4 for details of responses received from companies.

During the Inception Workshop held on 25 June 2017, the MoF expressed constraints in its ability to thoroughly review the government entities' reports due to timing issues and those reports being submitted through the M.EITI E-Reporting system. However, the MoF state secretary did provide a

signature on total overall data by revenue stream without providing a specific attestation or representation.

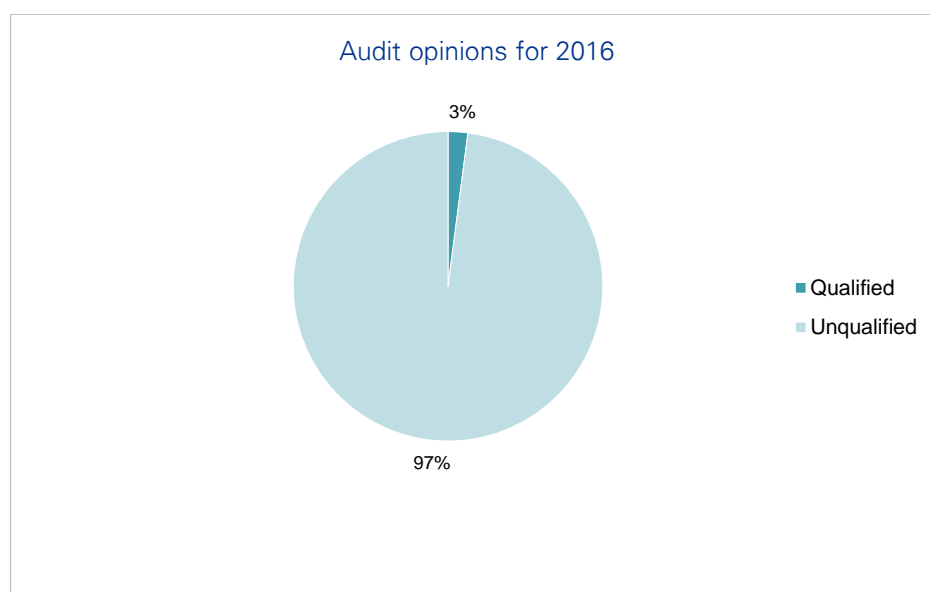
KPMG also asked for representation letters to be signed by the heads of each relevant government entity, including confirmation of the completeness and accuracy of the information presented within the additional information templates. Only three out of eight districts and 13 out of 21 aimags provided such representation letters. Please refer to Appendix 5 for details of the responses received from the government entities. Further, KPMG asked the MoF to provide a representation letter confirming completeness and accuracy of data initially reported. The MoF replied it is not able to provide this letter because it does not have detailed oversight of each revenue stream in the reported data.

### 4.3 Accounting framework and external audit

KPMG asked companies in the sample for reconciliation to provide copies of their audit reports for 2016. 146 companies out of 213 companies selected for reconciliation provided audit reports.

4 out of the 146 responded companies presented qualified audit opinions on their financial statements, which means over 97% of companies sent unqualified audit opinions.

We examined and assessed the potential impact of those modifications on the reconciliation process.



#### 4.3.1 Public sources of companies audited financial statements, if applicable (REQ 4.9a)

Please see Appendix 32 containing references to those companies' web sites where we were able to identify that the audited financial statements are publicly available.

## 5 Extractive Industries in Mongolia

### 5.1 Overview of the Extractive Industry

#### 5.1.1 Contribution of Extractive Industry to the Mongolian economy<sup>1</sup> (REQ 6.3)

##### 5.1.1.1 Size of Extractive Industry (REQ 6.3a)

The Extractive Industry as a whole is a major element of the Mongolian economy, directly contributing 20% of nominal GDP in 2016. Mongolia's annual real GDP growth rate slowed to 1% in 2016, compared to 2.4% real GDP growth in 2015. The EI sector remained the largest contributor to GDP, followed by agriculture, wholesale and retail, and construction and real estate sectors. EI sector growth was 21% in 2016, largely due to an increase in coal production and exports. For informal sector activity, please refer to Section 5.1.1.5.

While there exists no legitimate source of information on the informal sector in Mongolia, it has been estimated that there are 60-70 thousand individuals miners working in the EI sector and over 10% of these individuals are operating under an organisation.

EI contribution to GDP			
MNT billion	2014	2015	2016
Other sectors (in absolute terms)	18,566	19,194	19,118
EI contribution to GDP (in absolute terms)	3,661	3,956	4,768
<i>EI share of GDP</i>	<i>16.5%</i>	<i>17.1%</i>	<i>20.0%</i>

Source: the National Statistics Office

##### 5.1.1.2 Extractive Industry revenue contribution in 2016 (REQ 6.3b)

Government receipts from the EI sector in 2016 totalled MNT 1,086 billion<sup>2</sup>, contributing 19% of total government revenue in the year. Receipts from royalties and taxes (including CIT, VAT, customs tax and local tax) in 2016 amounted to MNT 257 billion and MNT 367 billion respectively. Taxes therefore accounted for the largest share of government receipts from the EI sector at 34%, with a further 24% of EI receipts being from royalties. Copper producers Erdenet Mining Corporation LLC and Oyu Tolgoi LLC were the largest generators of government revenue during 2016. The following table shows EI revenue contribution in 2016.

<sup>1</sup> Note: Contribution of EI to economy excludes ASM sector in Mongolia. Please refer to Section 5.1.1.5 for ASM sector overview.

<sup>2</sup> Note: Mongolian government total revenue information presented here is publicly available at the website of MoF. Total government receipts and the split by revenue streams is based on the data from the reconciliation process described in 3 and 4 and presents adjusted government revenues after adjustments from the reconciliation. Note that some companies in the reconciliation process operate also in other sectors as well as EI.

EI revenue contribution in 2016	
MNT billion	% of total revenue
<b>Total government revenue*</b>	<b>5,852</b>
EI revenue	18.6%
Royalty	4.4%
CIT	3.9%
Petroleum production revenue	2.3%
Social and health insurance paid by companies	2.2%
VAT	2.0%
Customs tax and fees	1.4%
Others	2.3%

Note: \* Total government revenue includes grants received in 2016

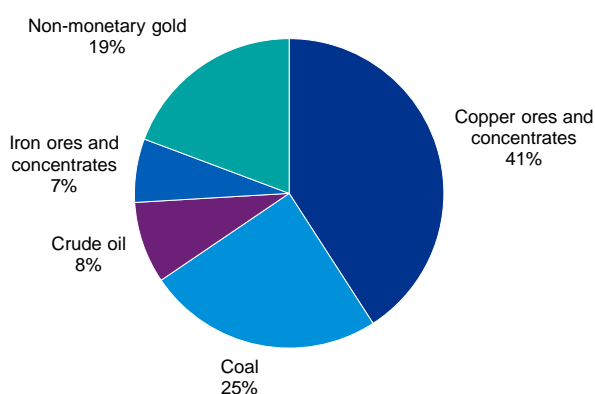
### 5.1.1.3 Extractive Industry exports (REQ 6.3c)

The total value of export of goods and EI exports in USD increased by 5.3% and 3.6% respectively in 2016 compared to the previous year. In 2016, value growth of coal and non-monetary gold contributed 16% of total exports that have been partially offset by decline of copper ores and concentrate export by 14%. The share of EI exports in the total export of goods decreased slightly by 1.4% in 2016 due to a 54.3% growth in other sectors such as manufacturing goods.

EI export			
USD million	2014	2015	2016
EI exports	5,184	4,092	4,238
Non-EI exports	590	577	678
<i>EI export share in total export</i>	<i>89.8%</i>	<i>87.6%</i>	<i>86.2%</i>

Source: the National Statistics Office

USD value share of minerals in EI export



Source: the Bank of Mongolia

For detailed information on exports, please refer to Section 5.1.3.2



#### 5.1.1.4 Employment in the Extractive Industry (REQ 6.3d)

A total of 38 thousand people, excluding the artisanal and small-scale mining industry, were employed in EI in 2016. Although exports increased during 2016, the number of employees in the EI industry decreased by 11.6%, from 43,000 to 38,000. This was due to a combination of factors, predominantly economic, which led to a general reduction in investment for exploration and development by EI companies. The share of the EI sector's employment within the total employed population decreased by 0.4% in 2016 compared to 2015, from 3.7% to 3.3%.

EI employment			
Thousand employment	2014	2015	2016
Employment in EI	41	43	38
Non-EI employment	1,070	1,109	1,110
Share of employees in EI	3.7%	3.7%	3.3%

Source: the National Statistics Office

148 companies submitted detailed employee information to the Independent Administrator in response to the additional information template. According to the submitted information, there are currently 26,410 employees in the Extractive Industry, of which 24,481 are Mongolian employees and 1,929 are foreign employees. Out of the 24,481 Mongolian employees, 16,910 are local soum employees. 21,479 employees are on permanent basis and 2,050 employees are on contractual basis. Please refer to Appendix 13 for company level employee details.

As reported by the General Agency for Labor and Social Service, the following table indicates the foreign employee numbers in the Extractive Industry:

Foreign employees in EI					
Location	2012	2013	2014	2015	2016
Arkhangai	33	53	-	-	6
Bayan-Ulgii	33	176	37	70	38
Bayankhongor		50	4	27	15
Bulgan	19	1	1	-	-
Uvurkhangai	-	1	-	-	-
Gobi-Altai	46	90	21	3	-
Gobisumber	6	16	2	-	6
Darkhan-Uul	-	10	-	-	1
Dornogobi	828	1,514	820	533	546
Dornod	2,066	2,348	2,254	1,879	1,020
Dundgobi	29	35	46	87	16
Zavkhan	-	3	2	4	-
Umnugobi	1,048	329	336	95	530
Orkhon	6	-	-	-	-
Sukhbaatar	455	326	347	136	85
Selenge	-	450	299	104	81
Tuv	452	39	488	545	277
Uvs	68	-	-	26	30
Khuvsgul	9	-	-	4	-
Khovd	4	4	47	22	13
Khentii	-	50	86	61	29
<b>Ulaanbaatar</b>					
Baganuur	-	-	2	-	-
Bagakhangai	57	-	-	-	-
Bayangol	46	127	61	76	13
Bayanzurkh	47	110	43	112	21
Nalaikh	13	22	12	12	2

Foreign employees in EI					
Location	2012	2013	2014	2015	2016
Songinokhairkhan	3	1	1	1	1
Sukhbaatar	398	139	69	85	67
Khan-Uul	23	82	73	60	6
Chingeltei	5	52	3	3	18
<b>Total</b>	<b>5,694</b>	<b>6,028</b>	<b>5,054</b>	<b>3,945</b>	<b>2,821</b>

Source: the General Agency for Labor and Social Service

### 5.1.1.5 Artisanal and small-scale mining

#### Overview

Artisanal and small-scale mining (ASM) widely refers to mining activities by individuals (often illegal), groups of communities or partnerships in Mongolia. Due to a lack of official statistics, and the irregularity and unpredictability of artisanal mining activities as a result of seasonal variance, this report addresses the ASM sector separately from the main Extractive Industry overview of Mongolia.

Artisanal mining started emerging in Mongolia in the 1990s as an alternative form of income generation for many households, following an increase in poverty, high unemployment and particularly harsh climatic conditions. The majority of the artisanal miners were herders who lost their livestock in severe winter conditions, locally known as "zud". According to the rural poverty portal powered by the International Fund for Agricultural Development (IFAD), consecutive zuds in Mongolia from 1999 to 2001 eliminated 7 million livestock and had a devastatingly negative impact on the earnings of rural areas.

#### Legal framework

On 24 May 2017, the GoM Resolution #151, defined as the Regulation on Extraction of Minerals from Small-Scale Mines, was approved and replaced Resolution #308 of 2010, which was enacted to formalise and identify artisanal mining activities. The Resolution #151 stipulates that an inter-governmental ASM council shall be established for an improved coordination of government organisations who are involved in ASM in Mongolia. In addition, the regulation aims to strengthen the capacity and increase the roles and responsibilities of the aimag (province) governments. For instance, according to the Clause 3.10 of the previous regulation, soum governments shall deliver an annual operation report (related to ASM activities) directly to central government, whereas the new regulation added the involvement of aimag governments to compile ASM activity report from soums for submission to the central government agency in charge of the geology and mining sector (MRPAM).

The following table shows the numbers of ASM miners and minerals mined as reported by MRPAM in accordance with the above resolution.

ASM activities reported by MRPAM								
Aimag	Soum	Name of the area	Mineral type	Area in use (ha)	Damaged area (ha)	Rehabilitated area (ha)	Number of miners	
							Men	Women
Dundgobi	Ulziit	Sharangad	Fluorspar	5	2	0	28	44
Uvs	Tarialan	Bor Khavtsal	Gold	5	5	0	49	13
Khentii	Kherlen	Ikhert Uul	Fluorspar	4.67	0.5	0	5	0
Dornod	Bayandun		Fluorspar	No data provided			40	6
	Bayantumen	Tsagaan Ue	Red mud	2	0.1	0.1	5	7
Gobi Altai	Yusunbulag	Jargalantbulag	Gold	1.5	1.5	0	109	54
		Shavriin Gol	Gold	1.2	1.2	0		
Gobi Altai	Yusunbulag	Zurkhtolgoin Urd Sudag	Gold	1.6	1.6	0		
Gobi Altai	Yusunbulag	Jambii	Gold	1.6	1.6	0		

ASM activities reported by MRPAM								
Aimag	Soum	Name of the area	Mineral type	Area in use (ha)	Damaged area (ha)	Rehabilitated area (ha)	Number of miners	
							Men	Women
Dornogobi		Dutiin davaanii am, Guurnii baruun taliin khoit 2 jalga	Gold	3	3	0		
		Undur denjiin salaa	Gold	1.5	1.5	0		
		Urd Khujirt	Gold	1.1	1.1	0.6		
	Airag	Khairtiin Uurkhai MongolRossT svetmet LLC	Fluorspar	1.6	1	0		
		Tagt	Fluorspar	5	0.1	11		
		Khairtiin Uurkhai MongolRossT svetmet LLC	Fluorspar	5	5			
		2 <sup>nd</sup> bagiin nutagt Altat	Fluorspar	0.04	0.04	0		
		2 <sup>nd</sup> bagiin nutagt Altat	Fluorspar	0.02	0.02	0		
		2 <sup>nd</sup> bagiin nutagt Altat	Fluorspar	0.02	0.02	0		
		2 <sup>nd</sup> bagiin nutagt Altat	Fluorspar	0.02	0.02	0		
		Khongoriin uurkhai, MongolRossT svetmet's rest of the area	Fluorspar	5	3	0		
		2 <sup>nd</sup> bagiin nutagt Altat	Fluorspar	0.01	0.01	0		
		1 <sup>st</sup> bagiin nutagt tsagaan del	Fluorspar	0.01	0.01	0.01		
	Ikhhet	No partnership conducting ASM mining activities exists						
Zavkhan	Urgamal	Tsagaan tolgoi	Gold	0.5	0.2	0	26	0
Arkhangai	Tsetserleg	Received official letter indicating no partnership exists.						
Bayankhongor	Zag						13	11
<b>Total</b>				<b>43.79</b>	<b>26.92</b>	<b>11.71</b>	<b>275</b>	<b>135</b>

Source: the Mineral Resources and Petroleum Authority

KPMG also requested the aimags to provide information regarding the ASM mining activities of 2016 through additional information templates. A total of 10 aimags with 29 local partnerships provided ASM mining information. In addition, Bayan-Ulgii, Bulgan, Khuvsgul, Gobisumber Sukhbaatar and Orkhon aimags reported zero incidences of ASM activities.

ASM activities reported by aimags					
Aimag	Soum	Mineral type	Number of miners	Number of partnerships	Name of the contract
Darkhan-Uul	Shariin Gol	Gold	15	4	Extraction of Minerals from ASM
Dornod	Tsul, Bayantumen	Fluorspar	17	1	
	Tsagaan ue, Bayantumen	Mud	12	1	
Dundgobi	Khurd	Fluorspar	120	4	ASM contract
Gobi-Altai	Nukht, Bayandun	Gold	20	3	
	Yusunbulag	Gold	230	6	No
	Taishir	Gold	50	No	No
	Altai	Gold	30	No	No

ASM activities reported by aimags					
Aimag	Soum	Mineral type	Number of miners	Number of partnerships	Name of the contract
Khentii	Norovlin	Gold	40	3	ASM mining contract
	Batnorov	Fluorspar	10	1	
	Bayan-Adraga	Fluorspar	16		
	Darkhan	Fluorspar	4	3	
	Kherlen	Fluorspar	5	1	
Khovd	Must	-	10	1	ASM mining contract
Tuv	Zaamar	Gold	19	-	ASM mining contract
	Ugtaaltsaidam	Kvarts's stone			
	Sergelen	Gold	6	1	
Umnugobi	Bayandalai, Servei, Nomgon, Manlai mandal, Ovoo, Gurvantes, Noyon, Tsogt-Ovoo	Fluorspar			
	Gurvantes	Red mud	No		
	Tarialan	Gold	No		
	Turgen	Gold	300-500		
	Umnugobi	Gold	30-50		
	Urgamal	Gold	23		
	Durvuljin	Gold	5		
Uvs	Tarialan	Gold	300-50		
	Turgen		30-50		
	Umnugobi		50-100		
Zavkhan	Urgamal	Gold	-	-	-
	Durvuljin	Gold	-	-	-

Source: Information provided by aimags

### Sustainable Artisanal Mining Project in Mongolia

The Sustainable Artisanal Mining (SAM) project was established in 2005, in partnership with the (formerly known as) Mineral Resource Authority of Mongolia and the Swiss Agency for Development and Cooperation (SDC). The purpose of the project is to organise small-scale miners into formal entities and create a favourable legal environment to formalise and regulate sustainable operations. The project aims to reduce poverty, increase the income of rural communities and support local economic developments. As a result of the project, formalisation of small-scale mining activity has increased, triggering small-scale miners to be organised into permanent community mining groups. The project is currently in its fourth phase and will run until the end of 2018.

## 5.1.2 Legal framework and fiscal regime (REQ 2.1)

### 5.1.2.1 Description of fiscal regime, laws, reforms and regulations

In the Inception Workshop, MSG agreed on the laws to be described in the 2016 M.EITI Report. These descriptions are included in this section. MSG confirmed the inclusion of regulations applicable until the end of 2016, regulations passed and valid until 30 June 2017 and summaries of draft regulations deemed significant by M.EITI and likely to be passed in the near future.

#### Draft laws and recent amendments to the laws between 2016 and June 2017

##### **The Draft Law on Mining, 2017**

The purpose of the Draft Law on Mining is to regulate all aspects of mine-related matters from exploration to mine closure and to cover a wider range of issues compared to those defined in the Minerals Law, adopted in 2014, which currently regulates the matters related to mining.

The Draft Law on Mining has 14 chapters:

- Chapters 1-2 define enumeration of objectives, definitions, the scope of the law, rights of government institutions, the control system and involvement of professional unions and non-governmental organisations;
- Chapters 3-7 focus on regulations including goals, financing, and stages of geological studies and mineral exploration work; economical and technical feasibility of development of deposit and related requirements; design of processing plants, and related requirements; preparations before the utilisation of mineral resources; mineral resources extraction, refinery, production and waste treatment;
- Chapters 8-14 emphasise issues including occupational safety, health and rescue measures, the environment and rehabilitation, product sales, mine closure, transparency, management, organisation and dispute resolution.

According to the Ministry of Mining and Heavy Industry, the Law on Mining is expected to bring positive changes by creating a transparent and responsible system in the Extractive Industry. Moreover, the Law on Mining is expected to improve the investment climate in the country by encouraging and reassuring both international and domestic investors through clear, defined and stable legal environment.

##### **Updates to the Draft Law on Transparency in the Extractive Industries**

The draft Law on Transparency in the Extractive Industries was presented to the Parliament on 13 October 2014. The draft consists of four chapters and 17 articles. As stated in the concept report approved by MoM (former name), MoF, and Ministry of Justice (former name), the following summarised regulations are stipulated in the draft:

- The first chapter states the purpose and scope of the draft, policies to implement transparency in EI, and descriptions of legal terminologies. According to this chapter, the purpose of the law is to regulate matters in connection with the implementation of transparency in EI.
- The second chapter states the management, structure and authority of the organisation responsible for implementing transparency in EI; and the rights and responsibilities of entities involved in the presentation of the EI transparency report.
- The third chapter contains comprehensive regulations regarding the matters related to the EI transparency report. The matters can be divided into four categories, which are:
  - transparency reporting by legal entities holding exploration and production licences and government entities;

- the integration of the EI transparency report produced by a legal entity selected by the National Council based on the reports submitted by the special licence holders and government entities;
  - the scope of information to be included in the integrated report and timeframe of the report preparation; and
  - the reconciliation of discrepancies between the reports issued by all the parties involved.
- The fourth chapter focuses on the funding of the organisation responsible for implementing transparency in EI, the sanctions for violation of the legislation, and the arrangements for enacting the law.

The draft was being prepared and waiting for the Parliament's Economic Standing Committee's debate and further full parliamentary debate. However, because of a change in government in 2015, the draft was not presented to the parliamentary debate in the specified time. In Spring 2016, the new government dismissed draft laws that were to be discussed and approved. This included the Draft Law on Transparency in the Extractive Industries.

However, key points of the Draft Law on Transparency in the Extractive Industries are summarised into Chapter 12 of the Draft Law on Mining and are being prepared to be presented at a parliamentary debate in November 2017.

### **The GoM Resolution on Accounting Standard of Extractive Industry, 2016**

In accordance with the GoM Resolution #409, the Accounting Standard on Extractive Industry was approved on 16 December 2016. Legal entities conducting exploration and extraction activities are required to reflect their activities from all stages in their accounting report. The standard does not regulate legal entities conducting natural gas and oil crude extraction activities.

### **2016 Amendment to the Licensing Law of 2001**

On 10 November 2016, "derivative deposit" was added to the list of business activities which require a licence. Derivative deposits are earth, soil, rock and enrichment waste products that are created due to mining activities and are economically beneficial in minerals re-processing.

### **2017 Amendment to the Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services of 2012**

On 13 April 2017, the law was amended to add Article 101. The amendment to the Law bans public officials and their related parties from holding a bank account, depositing money, owning any movable or immovable property, or establishing an entity with its equity ownership in the offshore zone during their public service. According to Article 101.4, if a candidate for a public position is elected and his/her related party has a bank account, deposit money, any movable or immovable property, or an entity with its equity ownership in the offshore zone, the account or the property shall be closed or sold within 3 months and the action shall be reported to the Anti-Corruption Agency within 30 days.

### **2016 Amendment to the Investment Law of 2013**

In Article 13 on tax rate stabilisation of the investment environment, tax rates shall be stabilised for a legal entity, implementing an investment project, by issuing stabilisation certificates to the party. The taxes, fees and duties that shall be stabilised under the stabilisation certificates include: corporate income tax, customs duty, value-added tax, and mineral resources royalty. On 10 November 2016, the law was amended so that mineral resources royalty from derivative deposits was removed from the list of tax rates that can be stabilised under the stabilisation certificates.

### The General Administrative Law, 2015

The Draft of the General Administrative law was started in 2008 and adopted by the Parliament on 19 May 2015. The law became effective starting from 1 July 2016. The purpose of the General Administrative Law is to regulate legal relations between the government and the public by specifying the timeline for submitting petitions, addressing regulations, and defining related methods for announcing decisions.

The law introduced a new procedure, called "Hearing", which requires government authorities to conduct a hearing in order to introduce the concept and purpose of their proposed plans to those members of the public whose rights and interests might be affected by the decision. The hearing must take place before the approval of proposed plans to describe the goal and contents of the decision and to allow members of the public to express their opinions. Although this procedure is mandatory, with some exceptions, government authorities are not required to modify their proposed plans to reflect the input received at the hearings. A written notification on why the proposed input received are not reflected in the proposed plan must be sent to members of the public who expressed their opinions at the hearings and this information must also be reflected in the hearing minutes.

### The Law on Legislation, 2015

The Law on Legislation was approved by the Parliament on 29 May 2015 and became effective starting from 1 January 2017. The purpose of the law is to regulate all stages of legislation processing; to improve the quality of regulations; to increase the participation of the public; to determine the requirements; and to assess the implementation of regulations. The requirements to conduct economic and social assessment, legislation implementation assessment, and to receive options of the public through public discussions during the drafting process of a legislation are legalized.

### GoM Resolution on Determining Employment Quota of Foreign Workers and Experts, 2016

Each year, GoM passes a Resolution which specifies the quota for foreign workers and experts working in Mongolia. This Resolution contains an appendix which lists the quota for foreign workers and experts allowed to work in Mongolia shown as percentages of the total number of employees in different sectors. If a sector is not covered in the appendix, the Resolution states that the quota shall be 5% of the total number of employees hired by the employer.

The GoM Resolution No.432 dated 2 November 2015 was passed to specify the quota for the foreign workers and experts allowed to work in Mongolia for the year 2016. The appendix of this Resolution contains the quota percentages. According to this appendix, the quota of foreign workers and experts in the Extractive Industry shown as a percentage of total employees was determined as follows:

Quota (% of total employees)				
EI activity	Capital stock (MNT million)			
	Up to 100			101 and over
	15 to 30 employees	31 to 50 employees	51-100 employees	Any number of employees
Oil and gas exploration and production	10%	20%	60%	70%
Other EI activities	10%	20%	20%	25%

Source: GoM 2015 Resolution No.432

For 2016, the quota of foreign workers and experts working in oil and gas exploration and production activities was 10%, 20%, 60% or 70% of total employees depending on the size of the capital stock and the number of total employees for that hiring entity. For other EI activities, the 2016 quota was 10%, 20% or 25% of total employees based on the capital stock amount and the number of total employees.



## Future Heritage Fund Law, 2016

For Future Heritage Fund Law, please refer to Section 5.3.4.

## Existing effective laws

### The Minerals Law, 2006

The Parliament of Mongolia enacted the current Minerals Law in July 2006. It applies to each mineral type with the exceptions of natural gas, petroleum, radioactive resources, water and widespread minerals. The law also provides the basis for the regulation of exploration, protecting the environment in relation to mining and all terms and processes associated with investing in Mongolian mineral resources. The law has eleven chapters that regulate the matters arising in connection with state regulation of the minerals sector, including: mineral exploration; production; conditions for maintaining eligibility to hold exploration or production licences; obligations of licence holders; transfer and mortgage of licences; termination of exploration and production licences; reporting requirements in relation to mineral resources; specifics of finance and accounting related to EI revenues; and resolution of disputes related to licences. The Minerals Law was amended every year from 2008 to 2015 and the most recent changes are outlined below.

### The Amendments to the Procedure for License Award through Tender, 2017

An amendment to the Procedure for License Award through Tender was made in accordance with the Mining and Heavy Industry Minister's Resolution A/40, dated 16 February 2017. The amendment changed the eligibility of participating entities in limited tendering process for license award for areas that coincide with local special use areas or areas affected by illegal mining. The eligibility of participating in this tender transferred from state-owned entities to fully or partially locally owned entities. This amendment has been receiving a resistance from public and civil societies since its enactment.

### The Amendments to the Minerals Law, 2015

The following provisions were added regarding the state ownership of "strategically important" mineral deposits in accordance with the 2015 Amendment to the Minerals Law:

- The state has the right to claim a shareholding in any company engaged in the exploitation of a mineral deposit which has been deemed to be "strategically important". Should the state so choose, the shareholding may be replaced by a royalty fee. In order to confirm and document such arrangements, an agreement must be negotiated and signed between the state and the relevant company. The agreement would specify the percentage shareholding by the state or royalties to be paid, as well as other related matters.
- When the state participates jointly with a private legal entity in exploitation of a strategically important mineral deposit where the reserves were determined by state funded exploration work, the state shall have the right to a shareholding of up to 50%.
- When the reserve of the strategically important mineral deposit was determined without any stated funded exploration work, the state shall be entitled to shares up to the value of 34% of the investment made by a private legal entity in the respective mineral deposit.

## Royalties

According to the Minerals Law, EI entities pay royalties to the GoM based on their product sales. The "deemed" sales prices for this purpose are determined as follows:

- If exported, the average mineral price during the month that the export takes place, or the average price of similar products in that month
- If consumed domestically, the local mineral price or price of similar minerals



- If the price cannot be determined from exports or domestic consumption, the EI entity's reported selling price will be used.

For each product, a base royalty rate is set, plus potential "surcharge" rates to be added to the royalty under certain circumstances. The surcharges are designed to increase as the market price rises and to be reduced for products which have undergone processing.

Examples of rates for the key resources mined in Mongolia can be seen in the table below.

Royalty and surcharge rates of major minerals								
Mineral	Unit	Note	Royalty rate	Royalty measure	Market price (USD / unit)	Surcharges in addition to royalty		
						Ore	Concentrate	Product
Copper	t		5.0%	of sales, shipped for sales or consumption value	0-5,000	0.0%	0.0%	0.0%
					5,000-6,000	22.0%	11.0%	1.0%
					6,000-7,000	24.0%	12.0%	2.0%
					7,000-8,000	26.0%	13.0%	3.0%
					8,000-9,000	28.0%	14.0%	4.0%
Gold	oz.	Gold sold to BoM or BoM approved bank	2.5%	of sales	+9,000	30.0%	15.0%	5.0%
					0-900	0.0%	0.0%	0.0%
					900-1,000	0.0%	0.0%	1.0%
					1,000-1,100	0.0%	0.0%	2.0%
					1,100-1,200	0.0%	0.0%	3.0%
Unprocessed coal	t	Internally consumed coal	2.5%	of sales, shipped for sales or consumption value	1,200-1,300	0.0%	0.0%	4.0%
					+1,300	0.0%	0.0%	5.0%
					0-25	0.0%	0.0%	0.0%
					25-50	1.0%	0.0%	0.0%
					50-75	2.0%	0.0%	0.0%
Enriched coal	t		5.0%	of sales, shipped for sales or consumption value	75-100	3.0%	0.0%	0.0%
					100-125	4.0%	0.0%	0.0%
					+125	5.0%	0.0%	0.0%
					0-100	0.0%	0.0%	0.0%
					100-130	0.0%	1.0%	0.0%
Finished products (coking coal, coke, natural gas, petroleum, coal-chemical products)	t		5.0%	of sales, shipped for sales or consumption value	130-160	0.0%	1.5%	0.0%
					160-190	0.0%	2.0%	0.0%
					190-210	0.0%	2.5%	0.0%
					+210	0.0%	3.0%	0.0%
					0-160	0.0%	0.0%	0.0%
Silver	oz.		5.0%	of sales, shipped for sales or consumption value	160-190	0.0%	0.0%	0.5%
					190-210	0.0%	0.0%	1.0%
					210-240	0.0%	0.0%	1.5%
					240-270	0.0%	0.0%	2.0%
					+270	0.0%	0.0%	2.5%
					0-25	0.0%	0.0%	0.0%
					25-30	0.0%	0.0%	1.0%
					30-35	0.0%	0.0%	2.0%
					35-40	0.0%	0.0%	3.0%
					40-45	0.0%	0.0%	4.0%
					+45	0.0%	0.0%	5.0%

Source: the Minerals Law of Mongolia and Its Amendments

## The Law on Widespread Minerals, 2014

The Parliament enacted the Law on Widespread Minerals in January 2014. The law applies to widespread minerals and provides the basis for the regulation of exploration, protecting the environment in relation to mining and all terms and processes associated with investing in Mongolian widespread mineral resources (which consist of gravel, clay, granite and sand).

The law has ten chapters that regulate the matters arising in connection with state regulation of the common minerals, including: mineral exploration; production; conditions for maintaining eligibility to hold exploration or production licences; obligations of licence holders; termination of exploration and production licences; reporting requirements in relation to mineral resources; specifics of finance and accounting related to EI revenues; and resolution of disputes related to licences.

According to Article 11.2.5 of the Law on Widespread Minerals, the governor of aimag or capital city shall execute the right to issue exploration and production licenses for widespread minerals for the areas of jurisdiction.

### **The Petroleum Law, 2014**

In July 2014, the Parliament of Mongolia approved a revised version to the Petroleum Law, partly with the intention of attracting foreign investment to the country whilst also replacing the 1991 Petroleum Law. The new law provides a number of incentives to petroleum explorers, but does not affect the terms of contracts previously signed. The Petroleum Law distinguishes between two main categories of petroleum products: petroleum including crude oil, natural gas, and refined petroleum; and unconventional petroleum including oil sands and oil shale.

The major changes introduced by the amendments were made by identifying the main petroleum related activities, namely search, exploration, and extraction. Licences need to be obtained in order to undertake exploration or extraction activities. Search activities as well as storage and transportation of petroleum are subject to the issuance of permissions or approvals from the relevant authorities. Such permissions now involve an approval process from MRPAM under the amended law. All the above activities were subject to licensing under the previous law.

New petroleum exploration licences are valid for eight years, with the option of two two-year extensions. The petroleum extraction period is 25 years and can be extended twice for five years each. The “unconventional” petroleum exploration period (for more information on unconventional petroleum, please see Section 5.2.2.1) is 10 years and can be extended once for a maximum extension of five years.

The Petroleum Law states that an EI entity must submit a request to perform a search and sign a search agreement with MRPAM. After the search is complete, a search performance report must be submitted to MRPAM before moving into the PSA contracting stage. For information about search agreements and PSA contracting procedures, please see Section 5.1.4.4.

MMHI is responsible for issuing an exploration licence to a legal entity that has entered into a PSA with MRPAM. In addition, an exploration licence can be issued to a company that has won a bid for a reserve even if PAM and the company conducting the search have not been able to conclude a PSA. A company's application to MMHI for an exploration licence must include supporting documents, such as a copy of the PSA; an environmental impact assessment report; an annual work plan; and evidence that an environmental bond has been deposited in an escrow account at a Mongolian commercial bank.

As stated in the Petroleum Law, if contractors begin commercial production of petroleum, they may recover their petroleum operation costs. Costs associated with exploration, production and refinement can be fully reimbursed/recovered as specified in the particular PSA. A petroleum amount up for cost recovery is calculated to be an annual limit of up to a 40% of difference in (a) annual petroleum production amount and (b) petroleum amount up for royalty.

According to Article 32 of the Petroleum Law, once the term of a PSA ends, the contractor shall not be granted the portion of cost recoverable expenses and they shall remain unrecovered. The state shall not pay any interest on the contractor's accumulated expenses for cost recovery.

The legal conditions to practice petroleum extraction were first established when the Petroleum Law of Mongolia was first enacted in 1991, and thereafter in 1993 the first PSA was signed.

The Petroleum Law of 1991 consisted of just 3 chapters and 15 articles. However, the Amended Petroleum Law of 2014 adopted additional rules and some key provisions of the PSA template. The PSA template was approved by Government Resolution No.104 dated 16 March 2015 for petroleum exploration and production.

For amendments relating to confidentiality conditions in PSA templates, please refer to Section 5.5.2.1.

### **The Petroleum Products Law, 2005**

In July 2005, the Parliament of Mongolia enacted the Petroleum Products Law, designed to define sub-classifications of activities in relation to petroleum products. These activities are given as import; production; trade; transportation; and storage. Petroleum products are defined as “all types of fuel products, special liquids, combustible gas, lubricating materials, bitumen, black oil and other products that are produced through the refining of petroleum and other chemical compounds”.

The import, production, and trade of petroleum products require a licence. Transportation and storage activities do not require licensing, but must be performed in compliance with the Petroleum Products Law and relevant rules and regulations issued by PAM.

On 7 February 2013, the Petroleum Products Law was amended to require an additional licence for the retail of petroleum products, which had previously been an unlicensed activity.

### **The Licensing Law, 2001**

In February 2001, the Parliament of Mongolia passed the Licensing Law with the objective to regulate activities with respect to issuing, suspending and revoking licences to conduct certain business activities that require specific conditions and expertise and that may negatively affect public interest, human health, environment and/or national security. Particular focus was given to defining and regulating the process of applying for mineral exploration and production licences.

Each exploration licence and production licence must be approved by the governor of the aimag where the licencing area is located, in addition to receiving approval from MRAM. The law defines the roles and responsibilities of local governments and state inspection offices in geology and mining for monitoring compliance by licence holders.

An exploration or production licence can be granted only to a limited liability company or joint stock company established under the laws of Mongolia. No individual Mongolian or foreign citizen is permitted to be the registered holder of a mineral licence.

On 1 July 2014, the Licensing Law was amended so that both conventional and unconventional petroleum exploration and production were added to the list of business activities which require a licence.

### **The Law on Water Pollution Fees, 2012**

As stated by “Hogan Lovells (Mongolia) LLP”, to implement the “polluter pays” principle in terms of water resources, the Law on Water Pollution Fees introduced fees payable by entities that pollute water resources and sets out the maximum and minimum amount of water pollution fees per polluting substance type.

Under the Law on Water Pollution Fees, The State Administrative Organisation in charge of water issues or basin administration should submit information regarding a water polluter to the relevant tax office

within one month after the issuance of permission and the tax office should register the payer based on the information.

According to the legislation, the following waste water is subject to water pollution fees:

- Waste water that is directly released into the environment within the permissible limits in accordance with the waste water standard requirements; and
- Waste water that is released into a sewerage system in accordance with the standard for the permissible maximum content of polluting substances.

Procedures and estimation methods to determine the content of polluting substances in waste water based on the volume of waste water and content of polluting substances should be approved by the State Administrative Central Organisation in charge of nature and the environment together with the State Administrative Central Organisation in charge of finance.

### **The Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009**

The Law On Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, which is commonly referred to as the “Long Name Law” was enacted on 16 July 2009. This law prohibits mineral exploration and production activities near water sources, protected areas and forests and regulates matters with regard to rehabilitation works for mining areas. The prohibition doesn’t apply to mineral deposits with strategic importance. GoM determines the water sources, forests, and protected areas and no licence can be issued within the restricted areas. A number of exploration and production licences were revoked under this law. The Law on Rule for Compliance of the Long Name Law was enacted together with the Long Name Law to implement the Long Name Law.

### **The Amendment to the Law on Rule for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2015**

According to Article 4.6 of the Long Name Law, GoM has an obligation to compensate the licence holders for revoking their licences. As summarised by “GTS Advocates LLP”, for the purpose of reducing the expenses of GoM on implementation of the Long Name Law and to allow safe mining operations in the restricted areas, an Amendment to the Law on Rule for Compliance of the Long Name Law sets forth further regulations below.

- If a licence holder who obtained a licence within a restricted area under the Long Name Law before 16 July 2009 wishes to continue its operations, it must apply to MRAM within three months of the date on which the Amendment to the Long Name Law came into effect.
- The licence holder should enter into an agreement with MEGDT, MRAM, and the governor of the respective aimag. The GoM shall approve the template to be followed for this type of agreement, and the agreement will be inspected by the PIA.
- If an affected licence holder does not apply to MRAM or conclude an agreement within the stipulated timeframe, its licence will be revoked and no further exploration or production licences will be issued in that area to any party in the future.
- Article 3 of the Amendment to the Long Name Law provides that GoM has to approve guidance for regulating the following issues:
  - revoking licences issued within the headwater areas;
  - taking relevant measures with respect to the licenced areas on which mining operations have been commenced within ordinary protected zones for water reserves (200 meters from riverbanks); and
  - implementing environmental rehabilitation.

- Once signed and issued, the agreements and guidance mentioned above constitute regulations that require the licence holders to provide 100% guarantees in advance for the environmental rehabilitation of the area. Accordingly, they will also serve as grounds for the obligations and authority of the PIA in respect of environmental protection.
- A production licence holder which has obtained a production licence within forested land is required to comply with the provisions of the Law on Forests, and if the areas of the exploration licence overlap with the protected areas of ordinary protected zones for water reservoirs or forest land, the relevant issues will be subject to the Law on Forests and the Law on Water.
- If a production licence holder does not perform environmental rehabilitation on the mining site, the payment for environmental rehabilitation will be reimbursed by the respective licence holder subject to its income earned during the period of mining operations.

### **The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012**

The purpose of this law is to prevent conflicts of interest arising between the official duties and private interests of those in public service roles, and to regulate and monitor conflicts of interest in order to ensure that public service activities accord with the public interest and that transparency and credibility in public services is maintained.

This law defines the basis of prohibitions, restrictions and ethical standards for the activities of public officials. It also regulates conflict of interest prevention measures, conflict of interest declarations and verification procedures over conflict of interest declarations, and establishes sanctions for breaches of this law.

According to this law, public officials have an obligation to report cases where the value of a one-off gift or service received from persons other than their family members or relatives exceeds the equivalent of their monthly salary or where the value of gifts or services received from a single source in the course of one year exceeds the equivalent of three months' salary. The report should be made within 30 days, in written form, to a corresponding official.

### **The Amendments to Article 60 of the Budget Law, 2015**

For amendments related to Article 60 of the Budget Law, please refer to Section 5.3.3.

### **The General Tax Law, 2008**

The purpose of the General Tax Law of Mongolia is to establish legal grounds for the introduction, establishment, imposition, reporting, payment, control and collection of taxes in Mongolia; to define the rights, duties and liabilities of taxpayers and the tax authorities; and to regulate the relationships between them.

Oil royalties as well as conventional and unconventional petroleum exploration and production licence fees were classified as state taxes. State taxes are tax rates established by the Government and Parliament and commonly enforced across the territory of Mongolia.

### **The Investment Law, 2013**

The Investment Law of Mongolia was enacted by the Parliament on 3 October 2013, effective from 1 November of the same year. The Investment Law replaced the previously existing Foreign Investment Law of Mongolia enacted in 1993 and the Strategic Entities Foreign Investment Law of 2012.

The Strategic Entities Foreign Investment Law of 2012 had applied mainly to the strategic sectors of minerals, banking and finance, and media and telecommunications. Foreign investors and their affiliates

were required to get approval from GoM by submitting an application to the Ministry of Economic Development within 30 days of entering into transactions to invest in the strategic sectors. Additional requirements were imposed regarding legal entities with foreign state ownership, whereby the approval of Parliament was required for them to operate and invest in any economic sector. This 2012 law was widely regarded by investors as anti-foreign investment.

The purpose of the Investment Law of 2013 was to establish the legal rights and obligations for investors (legal entities and individuals) in Mongolia, stabilise the tax environment, provide incentives to encourage investment, and to establish the powers and responsibilities of the state administrative agency that will regulate investment. A new factor in the Investment Law of 2013 related to defining residence of individual investors. The distinguishing factor between a foreign individual investor and a domestic individual investor in the 2013 Investment Law is not the nationality of the individual investor but rather the residence of the individual investor. Consequently, if a foreign investor permanently resides in Mongolia, the investor should be treated as a domestic investor and a Mongolian investor permanently living outside the country should be treated as a foreign investor.

### The Audit Law, 2015

The Audit Law of Mongolia was revised on 19 June 2015 and the amended law became effective starting from 1 January 2016. One of the main changes in the amended law concerns entities for which an audit of their financial statements is mandatory. In the amended law, the list of legal entities which should have their financial statements audited is substantially different than the previous version of the law. The major differences in entities whose financial statements should be audited are as follows:

#### Under the previous version of the law:

- Listed companies
- Entities requesting to register on a stock exchange
- Entities with assets worth more than MNT 50 million
- Savings and credit unions
- Banking and financial institutions and insurance companies
- Securities companies with brokerage and dealer services and investment funds
- Political parties
- Other comparable entities which are similar in nature with the above-listed entities

#### Under the amended law:

- Entities applying International Financial Reporting Standards ("IFRS")
- Entities which present integrated financial statements
- Foreign invested entities
- Other entities which should have audited their financial statements according to an international treaty to which Mongolia is party

As stated in Article 4.2 of a new Accounting Law of Mongolia (2015), which became effective starting from 1 January 2016, the following entities should apply IFRS:

- Companies listed on domestic and foreign stock markets;
- Companies requesting to be listed on domestic and foreign stock markets;
- Entities holding licences in banking, financial services and activities other than banking, economic services, mineral resources exploration and production works, and production of petroleum products;

- State – owned, local government – owned entities and other entities in which those state – owned or local government – owned entities have shares;
- Political parties and non-government agencies having established an agreement with GoM and implementing government proposals stated in Article 19 of the Law on the Government of Mongolia; and
- Special purpose companies in affiliation with commercial banks and entities providing investment funding services.

As stipulated in the revised Accounting Law (2015), the following entities and individuals should apply IFRS for Small and Medium Size Entities (SMEs), therefore they are not subject to external auditing:

- Entities and individuals conducting business in manufacturing and with less than 199 workers and annual sales of less than MNT 1.5 billion;
- Entities and individuals conducting wholesale business and with less than 149 workers and annual sales of less than MNT 1.5 billion;
- Entities and individuals conducting retail business and with less than 199 workers and annual sales of less than MNT 1.5 billion;
- Entities and individuals carrying out service and with less than 49 workers and annual sales of less than MNT 1 billion; and
- Small and medium size manufacturing enterprises with less than 19 workers and annual sales of less than MNT 250 million, or small and medium size enterprises in commerce and service sectors with less than 9 workers and annual sales of less than MNT 250 million.

Under the previous version of the Audit Law, ineffective from 1 January 2016, entities with assets worth more than MNT 50 million are required to have their financial statements audited. With the amended law, many SMEs can meet the criteria to apply IFRS for SMEs and they will not need to have their financial statements audited. Further key changes in the amended audit law concern, amongst others, an increase in the period of mandatory auditor rotation, the composition of audit firms, the ownership of audit firms and regulation of audit licences and related qualifications.

### 5.1.2.2 Main laws governing EI in Mongolia

The list of key laws and key amendments is set out as follows:

- The Minerals Law, 2006;
- The Law on Widespread Minerals, 2014;
- The Amendments to the Minerals Law, 2015;
- The Petroleum Law, 2014;
- The Petroleum Products Law, 2005;
- The Licensing Law, 2001;
- The Law on Water Pollution Fee, 2012;
- The Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2009;
- The Amendment to the Law on Rule for the Compliance of the Law on Prohibiting Mineral Exploration and Production Near Water Sources, Protected Areas and Forests, 2015;
- The Law on the Prevention of Conflict of Interest and the Regulation of Public and Private Interests in the Public Services, 2012;



- The Audit Law, 1997, 2015;
- The Accounting Law, 2001, 2015;
- The General Tax Law, 2008;
- The Investment Law, 2013;
- The Law on Economic Entity and Organisation Income Tax, 2006;
- The Law on Air Pollution Payments, 2010;
- The Law on Environmental Protection, 1995;
- The Law on Environmental Impact Assessment, 2012;
- The Law on Natural Resource Use Fee, 2012;
- The Law on Customs Tariff and Customs Duty, 2008;
- The Law on Exemption Of Customs Duty, 2008;
- The Law on Exemption Of Customs Duty and Value Added Tax, 2012;
- The Underground Resource Law, 1988;
- The Land Law, 2002;
- The Law on Land Fees, 1997;
- The Law on Value Added Tax, 2006, 2015;
- The Law on Forest, 2012;
- The Immovable Property Taxation Law, 2000;
- The Law on Nuclear Energy, 2009;
- The Future Heritage Fund Law, 2016;
- The Fiscal Stability Law, 2010;
- The Law on Development Policy Planning, 2015; and
- The Government Resolution #179 of 2016 and a template for the Local Cooperation Agreement.



### 5.1.3 Minerals overview

Mongolia has rich resources of coal, copper, iron ore, gold and silver. Mongolia mainly exports coal, copper and other minerals to China via railway, while a small amount is exported to Japan, Korea, Russia, the United Kingdom and Australia. Mongolia's existing railway network is limited to a single connection each with Russia and China. Mongolia's vast land and sparse population make infrastructure solutions difficult, however, GoM has approved Resolutions to expand the Mongolian railway in order to increase export capacity.

As of 31 December 2016, 2,058 companies held licences to perform exploration and production activities on 63 types of minerals at over 3,579 sites. During 2016, the EI generated sales of MNT 4,257,163 million.

#### 5.1.3.1 Significant exploration activities (REQ 3.1)

According to the MRPAM, there were 13 significant exploration projects that have been privately funded, and no government funded exploration projects were undertaken in 2016.

#### Privately funded exploration works

The largest privately funded exploration projects in 2016 are shown below: .

Privately funded significant exploration projects in 2016					
	Exploration projects	Mineral type	Location	Approved reserve	Reserve size
1	Uranium project (Dulaan Uul, Deposit of Zuuvch Ovoo)	Uranium	Dornogovi aimag, Ulaanbadraakh Soum	Uranium deposit of Dulaan Uul (B+C)	For Dulaan Uul reserve, 11,896.44 t uranium reserve with ore of 58,117,825.63 tn and 217.69 g/t average content.
				Uranium deposit of Zuuvch Ovoo – Proved and probable reserves (B+C)	For Zuuvch Ovoo reserve, 67,706.77 t uranium reserve with ore of 288,698,781.25 tn and 234.52 eUppm average content.
2	"Selenge" Iron Ore project	Iron	Selenge aimag, 24 km from Eroo soum	Proved reserve (B) and Probable reserve (C)	Proved reserve (B): Ore of 238.80 million tn, metal 39.3 million.tn. Probable reserve (C): Ore of 10.6 million.tn, metal 1.8 million.tn.
3	"Kharmagtai" project	Gold-Copper	Umnugobi aimag, Tsogt Tsetsii soum	Approved economic benefit, probable and proved reserve (A+B+C)	Ore reserve of 18,031,254.0 tn, gold reserve of 13,428.0 tn, copper reserve of 88,475.0 tn.
				Approved benefit with certain condition, proved and probable reserve (A+B+C)	Ore reserve of 68,535,851.0 tn, gold reserve of 25,008 tn, copper reserve of 259,525.0 tn.
4	"Khurel Uneg" project	Polymetal (Cu-Au-Mo)	Dornogobi aimag, mandakh soum	Undetermined	Undetermined
5	Bayan Uul deposit	Gold	Tuv aimag, Delgerkhaan, Buren soum	Proved and probable reserve (B+C) for ore body 1	Gold reserve of 24.29 tn
6	Ulaanbulag Deposit	Gold	Selenge, Tuv aimag, Mandal, Bornuur soum	Proved reserve (B) and Probable reserve (C)	Proved reserve (B): 2,841.5 thousand.t ore and 3,765.4 kg gold; Probable reserve (C): 443 thousand.t ore and 478.4 kg gold for probable reserve.

Privately funded significant exploration projects in 2016					
	Exploration projects	Mineral type	Location	Approved reserve	Reserve size
7	Tsagaan Ovoo Deposit	Gold-polymetal	Dornod aimag, Tsagaan Ovoo soum	Approved economic benefit, proved and probable reserve (A+B+C),	Total reserve with economic benefit: 19,308,574.0 tn ore, 26,389.9 kg gold, 195,391.7 kg silver, 105,466.1 tn lead and 193,966.3 tn zinc; Proved (A) reserve with 8,658,448.0 tn ore, 13,551.7 kg gold, 69,471.9 kg silver, 54,158.0 tn lead and 94,705.7 tn zinc; Proved (B) reserve with 10,574,088.0 tn ore, 12,749.1 kg gold, 125,585.6 kg silver, 51,177.6 tn lead and 99,078.8 tn zinc; Probable (C) reserve with 76,038.0 tn ore, 89.1 kg gold, 334.2 kg silver, 130.4 tn lead and 181.8 tn zinc.
				Approved benefit with certain condition, proved and probable reserve (A+B+C)	Total reserve with approved benefit with certain condition: 2,609,660.0 tn ore, 1,807.1 kg gold, 17,285.9 kg silver, 23,475.9 tn lead and 40,836.2 tn zinc.
8	Ulaan Del project	Zircon, rare element	Uvs aimag, Zavkhan soum	Undetermined	Undetermined
9	Khukh Del Deposit		Dundgobi aimag, Ulzii soum	Proved and probable reserve (A+B+C)	283,9 million tn ore reserve with 0.156% average content and 443,6 thousand tn lithium reserve. Of which: Proved reserve (A) of ore with 23,5 million.tn, proved reserve (B) of ore with 98,7 million.tn, and lithium metal reserve of 37,7 thousand tn for proved reserve (A) and lithium metal reserve of 151,3 thousand tn for proved reserve (B)
10	Munkhtiin Tsagaan Durvuljin lithium deposit	Lithium	Gobisumber, Dundgobi aimag, Shiveegobi, Bayanjargal soum	Probable and proved reserve (B+C)	2,276,989 tn ore with 0.65% Li <sub>2</sub> O-average content and 14,575 tn lithium, 4,286.1 tn rubidium with 0.15% Rb <sub>2</sub> O average content and, 0.622 tn caesium with 0.03% average content.
11	Mandal Deposit	molybdenum wolfram	Khuvsugul aimag, Tsagaan-Uul soum	Approved economic benefit, Probable and proved reserve (A+B+C)	294,949,392.65 tn ore with average content of ekvMo-1,124.0 g/tn, Mo-961.89 g/tn, W-242.12 g/tn has 331,523.96 tn ekvMo, 283,708.52 tn molybdenum and 71,412.67 tn wolfram.
				Approved benefit for certain condition, Probable and Proved reserve (A+B+C)	19,874,107.98 tn ore with average content of ekvMo-245.23 g/tn, Mo-151.14 g/tn, W-140.53 g/tn has 4,873.66 tn ekvMo, 3,003.68 tn molybdenum and 2,792.83 tn wolfram
12	Ondor Tsakhir Deposit	molybdenum wolfram		Proved and probable reserve (B+C)	As a result of exploration work, 156,453 thousand tn metal with 0.083% molybdenum average content in the 18,757.09 thousand tn ore. In addition, 7,465 thousand rhenium with 0.04 g/t average content and 28,887 thousand wolfram with 0.015% average content.
13	Bayantsogt	molybdenum wolfram	Khentii aimag, Tsenhermandal soum	Proved and Probable reserve /B+C/	269.67 million tn ore with 74,296.4 tn metal wolfram, 55,627.4 tn metal molybdenum, 38,261.9 tn metal tin, 417.63 tn silver reserve with WO <sub>3</sub> 275.51 g/t, Mo 206.28 g/t, Sn 141.88 g/t, Ag 1.55 g/t or 511.1 g/t; Wolfram equivalent (Eq.WO <sub>3</sub> ) average contents or total of 137,831.2 tn metal wolfram equivalent reserve.

Source: the Mineral Resources and Petroleum Authority of Mongolia

### 5.1.3.2 Main minerals and their production, sales and export (REQ 3.2, REQ 3.3)

#### Production and sales (REQ 3.2)

The following table shows 2016 production volumes by minerals reported by the National Statistics Office.

2016 production volumes of minerals						
Minerals	Units	2013	2014	2015	2016	% change
1 Coal	000' ton	30,123	25,288	24,206	35,522	47%
2 Crude oil	000' barrels	5,129	7,405	8,769	8,250	-6%
3 Copper concentrate, by metal content	000' ton	803	1,080	1,335	1,445	8%
4 Molybdenum concentrate	ton	3,732	4,054	5,207	5,174	-1%
5 Gold	ton	9	12	15	18	27%
6 Fluorspar	000' ton	162	303	184	168	-9%
7 Fluorspar concentrate	000' ton	76	72	47	34	-28%
8 Iron ore	000' ton	5,012	6,293	4,274	4,936	16%
9 Iron ore concentrate	000' ton	6,124	3,967	1,900	2,210	16%
10 Zinc concentrate	000' ton	104	93	90	100	12%
11 Tungsten concentrate	ton	-	1,024	1,024	710	-31%
12 Salt production	ton	658	1,378	1,686	478	-72%

Source: the National Statistics Office, Statistics Bulletin 2016, page 578

The following table shows 2016 production values by minerals reported by the National Statistics Office.

2016 production values of minerals (MNT million)					
Minerals	2013	2014	2015	2016	% change
1 Metal ore production	3,273,706	6,467,458	5,863,580	6,840,077	17%
2 Coal production	1,461,125	1,081,738	952,492	1,690,459	77%
3 Crude oil production	770,940	1,125,185	834,990	747,324	-10%
4 Other minerals production	113,897	137,919	141,855	129,703	-9%
5 Other activities for mining production	480,088	458,987	361,648	435,810	21%
<b>Total</b>	<b>6,099,755</b>	<b>9,271,286</b>	<b>8,154,564</b>	<b>9,843,373</b>	

Source: the National Statistics Office, Statistics Bulletin 2016, page 568

The following table shows 2016 sales volumes and values by minerals that has been provided by MRPAM. Please note that the information is based on the companies reported their sales information to MRPAM as such it may not be complete. Please see Appendix 14 for full details.

2016 sales volumes and values of minerals (monetary value is in MNT million)				
Mineral	Units	Sales volume	Sales amount	Sales %
Copper concentrate	000' ton	1,482.75	3,719,545	57.5%
Coal	000' ton	27,065.57	2,214,586	34.2%
Gold	kg	3,094.47	271,840	4.2%
Zinc concentrate	000' ton	101.27	150,223	2.3%
Molybdenum concentrate	000' ton	5.78	58,639	0.9%
Tungsten concentrate	000' ton	3.70	13,505	0.2%
Cement	000' ton	81.80	11,083	0.2%
Fluorspar	000' ton	13.66	6,802	0.1%

### 2016 sales volumes and values of minerals (monetary value is in MNT million)

Mineral	Units	Sales volume	Sales amount	Sales %
Crushed rock	000' ton	192.29	3,024	0.0%
	000' m3	156.46	3,113	0.0%
Fluorspar concentrate	000' ton	9.47	5,295	0.1%
Limestone	000' ton	174.67	3,502	0.1%
Silver	kg	2,476.88	3,035	0.0%
Gravel	000' ton	365.58	2,716	0.0%
Manganese ore	000' ton	28.08	2,096	0.0%
Fluorspar ore	000' ton	11.15	1,030	0.0%
Bricks	000' unit	6,175.50	847	0.0%
Gypsum	000' ton	11.34	377	0.0%
Marble	000' ton	18.26	162	0.0%
Sand	kg	19.72	133	0.0%
Tin concentrate	000' ton	0.01	101	0.0%
Manganese concentrate	000' ton	0.67	95	0.0%
<b>Total</b>			<b>6,471,748</b>	

Source: the Mineral Resources and Petroleum Authority of Mongolia

Note:

1. Sales data excludes the ASM sector in Mongolia

2. Value of coal sales used per tonne price of MNT 93,856 or USD 37.7 for exported coal (National Statistics Office Dec 2016 statistics) and per tonne price of MNT 42,701 for domestic use (Shariin Gol JSC's 2016 year end report in Mongolian Stock Exchange)

### Exports (REQ 3.3)

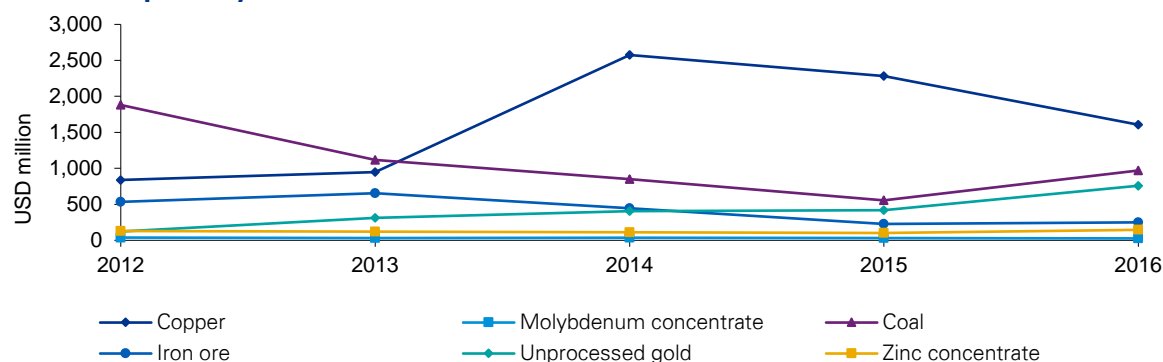
The following table summarises export volumes and export values of significant minerals.

Mineral exports over last 5 years							
Mineral		2012	2013	2014	2015	2016	CAGR
Copper	'000 tons	574	650	1,379	1,478	1,562	28.4%
	USD m	839	949	2,575	2,280	1,608	17.7%
Molybdenum concentrate	tons	4,306	3,984	3,994	5,023	5,776	7.6%
	USD m	38	29	35	29	26	(8.8)%
Coal	'000 tons	20,547	18,194	19,481	14,426	25,714	5.8%
	USD m	1,880	1,116	849	555	972	(15.2)%
Iron ore	'000 tons	6,416	6,724	6,325	5,065	6,085	(1.3)%
	USD m	533	654	446	227	250	(17.2)%
Unprocessed gold	kg	2,797	7,559	10,041	11,343	19,169	61.8%
	USD m	122	310	405	421	758	57.8%
Zinc concentrate	'000 tons	141	131	99	84	126	(2.7)%
	USD m	131	119	113	102	145	2.7%

Source: the Mongolian Customs Office

<http://www.customs.gov.mn/statistics/index.php?module=users&cmd=info&pid=0&id=131>

### Mineral exports by value



Source: Prepared based on the data from Mongolian Customs Office

Copper exports increased by 112% from 2013 to 2014, mainly due to increased copper production at Oyu Tolgoi, which commenced sales in mid-2013. Copper export continuously increased until 2016 but decreased in value due to a decrease in copper price.

Coal exports continuously decreased both in terms of weight and value from 2012 to 2015, which is mainly attributable to coal price decreases in the same period. Over 85% of exported coal in 2016 was coaxial, raw coaxial and loose coaxial coal. According to MRPAM 2016 statistical report, the price of such coal increased from USD 106.3 per tonne in 2015 to USD 121.3 per tonne in 2016, which led to a 78% increase in coal export volume and a 75% increase in value.

According to the MRPAM 2016 statistical report, iron ore exports had been decreasing up until 2015 mainly due to a decreasing price. In 2016, the iron ore price increased from USD 49.8 per tonne to USD 62 per tonne, which led to a 20% increase in iron ore export volume and a 10% increase in value.

Gold exports had been low prior to 2014 due to an amendment made to the Minerals Law (<http://www.legalinfo.mn/law/details/63?lawid=63>) on 25 November 2010 to increase the surcharge on gold processing by up to five percent. However, due to additional production at Oyu Tolgoi, gold exports increased by 170.3% and 32.8% in 2013 and 2014, respectively. In addition, the gold export increase in 2014 was driven by amendments to the Minerals Law on 24 January 2014 that eliminated the five percent surcharge on gold processing. According to the Minerals Law, there is no royalty on gold sold to BoM or BoM approved banks.

Nearly all copper, molybdenum, coal, iron ore and zinc concentrate exports from 2012 to 2016 were to China. Gold is exported primarily to Canada, the United Kingdom and Switzerland.

## Main minerals

The following section outlines five main minerals – copper, coal, gold, iron ore, silver and widespread minerals – in detail as agreed by the MSG in the Inception Workshop.

### Copper

According to the International Copper Study Group, Asia consumed over 60% of global copper production in 2016. CNBC reported that the leading copper consumer, China, is expected to drive the copper price up by 33% by 2020. According to MRPAM 2016 statistics, Mongolia has 53.6 million tonnes of registered copper deposit reserves.

According to MRPAM 2016 statistics, the copper price averaged USD 5,501.00 per tonne and USD 5,665.83 per tonne in 2015 and 2016, respectively.

Copper was the most produced and sold extractive mineral in Mongolia in terms of value during 2016; Mongolia produced 1,504 thousand tonnes of copper valued at MNT 3,772,641 million and sold 1,483 thousand tonnes of copper for MNT 3,719,545 million in 2016.

The major copper-producing mines are the Oyu Tolgoi and Erdenet mines; they are described in detail below due to their significance to the Mongolian EI sector.

### Oyu Tolgoi mine

Oyu Tolgoi LLC, the largest copper and gold mining company in Mongolia, is a joint venture between the Government of Mongolia (34%) and Turquoise Hill Resources (66%) (a subsidiary of Rio Tinto). The Oyu Tolgoi mine is considered to be one of the largest undeveloped high grade copper deposits in the world. Oyu Tolgoi LLC currently has over 5,000 employees and has brought in FDI of over USD 10 billion since inception in two phases of its development.

#### Oyu Tolgoi timeline

Year	Description
2009	In October, OT's three-way shareholder's agreement was signed between GoM, Ivanhoe Mines of Canada, and Rio Tinto. According to the agreement, the investment was to be made in two phases: 1 <sup>st</sup> phase consisting of the open pit mine commissioning, concentrator and related infrastructure and preliminary shaft sinking works, and 2 <sup>nd</sup> phase consisting of underground mining and modification of the concentrator and infrastructure for underground ore
2013	In June, copper concentrate and gold production and sales from the open pit commenced.
2013-2014	Rio Tinto and the GoM failed to reach agreement on project costs, management fees, taxation, and water usage, among other issues.
2014	In June, GoM demanded about USD 130 million in back taxes, which was refuted by Oyu Tolgoi. This incidence raised the possibility for investors that Oyu Tolgoi would see no progress in 2014. In September, the National Tax Dispute Settlement Council reduced the tax claims to approximately USD 30 million. The initial list of 33 disputed items was reduced to one.
2015	In February, production reached one million tonnes of concentrate since commencement of production in June 2013. In May, GoM and Rio Tinto resolved the tax dispute and cost issues and reached an agreement to continue construction of a USD 5.4 billion underground mine.
2016	Bulk excavation component of convey-to-surface system was completed, allowing decline tunnel work to commence in January, 2017. By the end of 2016, underground lateral development was done for 1.6 km equivalent. During 2016, Oyu Tolgoi sold 828,600 tonnes of concentrate generating USD 1.2 billion revenue and recorded net income of USD 210.6 million.
Going forward	Oyu Tolgoi expects to produce 130-160 thousand tonnes of copper and 100-140 thousand ounces of gold concentrate in 2017. Compared to these forecasts, Oyu Tolgoi produced 201,300 tonnes of copper and 300,000 ounces of gold during 2016.

Source: Oyu Tolgoi webpage and public media  
[http://www.turquoisehill.com/s/oyu\\_tolgoi.asp?ReportID=379189](http://www.turquoisehill.com/s/oyu_tolgoi.asp?ReportID=379189)

#### Erdenet Mine

Erdenet Mining Corporation LLC is 51% owned by the GoM. The remaining 49% was acquired by Mongolian Copper Corporation LLC from Rostec Corporation on 28 June 2016. However, on 10 February 2017, Parliament issued Decree #23, which dictated the 49% interest in Erdenet Mining Corporation LLC be transferred to the GoM. The Mongolian Copper Corporation LLC filed a lawsuit against the GoM on 6 April 2017 and as a result, the Administrative Trial Court in the capital city decided that the Parliament Decree #23 of 2017 is illegal.

The matter remains under dispute. Currently, Erdene Mining Corporation is able to process up to 26 million tonnes of ore body per annum and produces around 530.0 thousand tonnes of copper concentrate and around 4.5 thousand tonnes of molybdenum concentrate annually. Erdenet Mining Corporation employs nearly 6,000 people.

#### Erdenet mine timeline

Year	Description
1978	The first concentrate was produced. First operational stage of mineral processing plant was commissioned with annual capacity of 4 million tonnes.
1980	Second operational stage of mineral processing plant was commissioned. Ore processing capacity increased to 8 million tonnes per annum
1981	Third and fourth operational stage of mineral processing plant was commissioned, increasing annual capacity to 16 million tonnes.
1989	Fifth operational stage of mineral processing plant was commissioned; annual capacity increased to 20 million tonnes. The overall production reached 1 million tonnes of copper in concentrate.
2000	Rougher concentrate section was launched into operations and the annual capacity to process ore reached 24 million tonnes.
2012	Reached the ore processing capacity of up to 26 million tonnes.
2013	Replaced and launched the flotation section #6 of the Mineral Processing Plant.
Going forward	According to the strategic plan until 2020, Erdenet Mining Corporation aims to improve plant equipment, to extend the ore processing capacity of 35 million tonnes per a year, to reduce cost of unit production and to produce a final product with added value by introducing new technologies, which are environmentally-friendly and energy saving.

Source: Erdenet Mining Corporation webpage  
[https://www.erdenetmc.mn/en/about\\_us/](https://www.erdenetmc.mn/en/about_us/)

## Coal

According to MRPAM's 2016 statistics, Mongolia has 26,570 million tonnes of registered coal deposit reserves. Overall, it is estimated that Mongolia has 10% of the globally known coal reserves. Coking coal is spread throughout the Central, Eastern and Mountain regions while brown coal is abundant in the Eastern region. Currently there are 294 coal production licences.

According to MRPAM's 2016 statistics, over 85% of exported coal in 2016 was coaxial, raw coaxial and loose coaxial coal. The price of such coal increased from USD 106.3 per tonne in 2015 to USD 121.3 per tonne in 2016. Mongolian coal prices are dependent on the Chinese economy, as nearly all coal exports between 2012 and 2016 were to China, according to the Mongolian Customs Agency. Bloomberg reported that the increase in coal price was mainly due to a new Chinese government policy to reduce the number of annual working days at its mines.

In 2016, production of energy coal, brown coal, concentrated coal, rock coal, loose coaxial coal and non-coaxial grade coal amounted to MNT 792,933 and the sales amount was 1,345,993.

## Molybdenum

According to MRPAM 2016 statistics, Mongolia has 650 thousand tonnes of registered molybdenum deposit reserves. The molybdenum price averaged USD 14,618.2 per tonne and USD 15,000 per tonne in 2015 and 2016, respectively. According to mining.com, several molybdenum mines in the USA closed due to the volatile environment of the molybdenum market, which led to a slight increase in its price.

In 2016, the molybdenum sales amount reached MNT 58,639 million in Mongolia.

## Silver

According to MRPAM 2016 statistics, average silver prices were USD 15.7 per oz. and USD 16.38 per oz. in 2015 and 2016, respectively. According to Forbes, silver is a dual-role, industrial and investment, metal. CNN reported that the silver price increase in 2016 was mainly caused by demand in industrial applications with 10% of the consumption being used in solar panels.

## Iron ore

According to MRPAM 2016 statistics, Mongolia has 348,107 thousand tonnes of registered iron ore deposit reserves.

Iron ore prices averaged USD 49.82 per tonne and USD 62 per tonne in 2015 and 2016, respectively. According to Forbes, the combination of steady demand from China and supply cutbacks from major players drove the iron ore price up in 2016.

There are two major iron ore exporters in Mongolia: Bold Tumor Eruu Gol and Altain Khuder.

## Gold

According to MRPAM 2016 statistics, Mongolia has 591,244 thousand tonnes of gold deposit reserves. Gold prices averaged USD 1,160.1 per oz. and USD 1,151.4 per oz. in 2015 and 2016, respectively. Interest rate increases in the USA during 2016 were the main drivers behind the decrease in gold prices.

## Widespread minerals (sand, crushed rocks, gravel, clay and granite)

The Widespread Mineral Resources Law (<http://www.legalinfo.mn/law/details/9750>) identifies sand, crushed rocks, gravel, clay, pipe and granite as widespread or common minerals, which are mainly used in construction. The M.EITI licence register (<https://e-reporting.eitimongolia.mn/portalMap>) combines



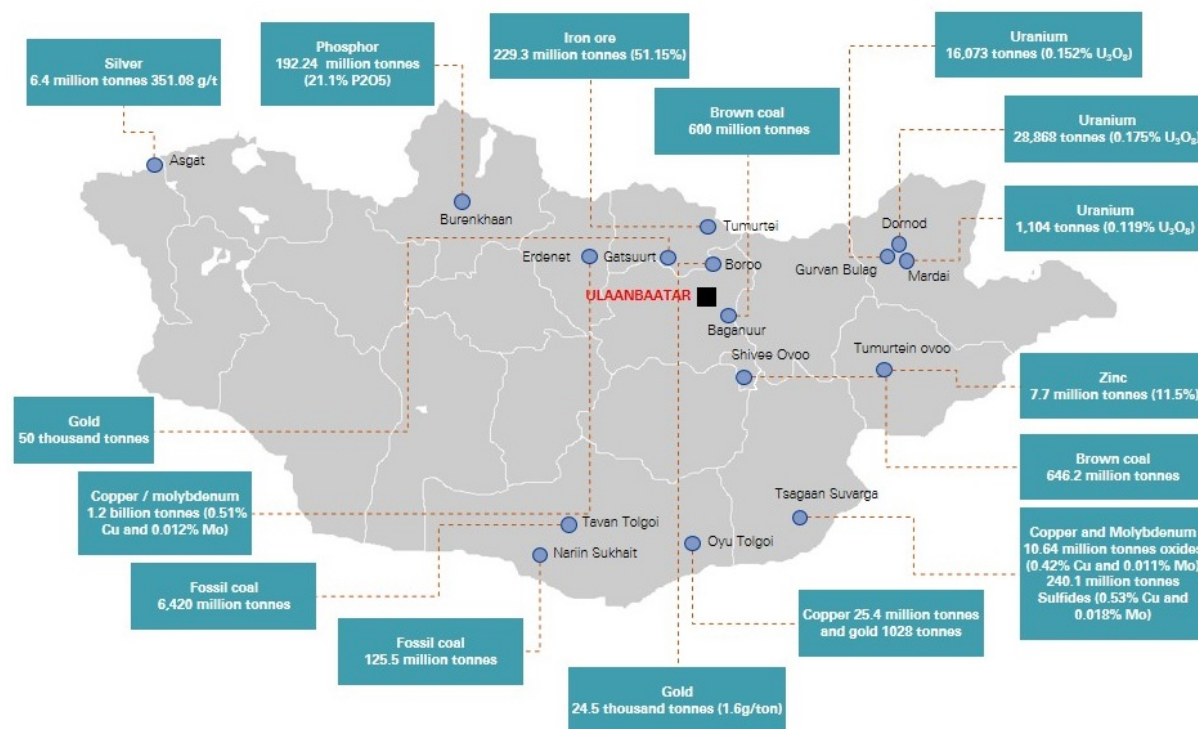
these licenses into construction materials. As of 31 December 2016, there are 311 construction material production licences in Mongolia, of which 134 are located in the vicinity of Ulaanbaatar city. Ulaanbaatar city, Tuv, Selenge, Darkhan-Uul, and Dornogovi aimags contain 84% of all widespread minerals.

Mongolia produced 401 thousand tonnes of crushed rocks valued at MNT 6,306 million and sold 349 thousand tonnes for MNT 6,137 million in 2016. In the same period, gravel production was 260 thousand tonnes and was valued at MNT 1,936 million with sales of 366 thousand tonnes for MNT 2,716 million. Mongolia produced 9,185 thousand bricks and sold 6,176 thousand bricks for MNT 847 million.



### 5.1.3.3 Key production regions and deposits of strategic importance (REQ 6.2e)

Parliament reviews the results of significant exploration work and determines deposits of strategic importance based on the potential impact on the general economy, GDP, national security and social development. From the total of 3,579 licences, Parliament designated the following 16 as deposits of strategic importance:



Source: Prepared based on Parliament Resolution no. 27 of 2007 and no. 11 of 2015  
<http://www.legalinfo.mn/law/details/6523?lawid=6523>  
<http://www.legalinfo.mn/law/details/10875?lawid=10875>

### Regional production and sales by aimags and soums

According to the data provided by MRPAM, a total of 115 companies have submitted their reports, and the production and sales data by regions are as follows:

Regional sales and production by aimags and soums						
Aimag	Soum	Mineral type	Unit	Production volume	Sales volume	Sales value (MNT m)
Arkhangai	Tsenher	Gold	kg	88.88	88.89	8,417
		Silver	kg	19.49	25.60	30
Bayan-Ulgii	Tsengel	Tungsten concentrate	'000 tons	0.52	0.52	9,549
Bayankhongor	Bayan-Ovoo	Gold	kg	18.81	18.81	1,648
		Silver	kg	1.37	1.37	1
	Bayan-Ovoo, Galuut	Gold	kg	0.96	0.96	89
		Silver	kg	0.07	0.07	0
	Galuut	Coal	'000 tons	49.60	49.60	2,118
		Gold	kg	30.10	30.10	2,691
		Silver	kg	0.92	1.30	1
	Gurvanbulag	Gold	kg	134.05	134.05	11,851
		Silver	kg	13.85	13.85	16
	Shinejinst	Coal	'000 tons	0.40	0.40	17

Regional sales and production by aimags and soums						
Aimag	Soum	Mineral type	Unit	Production volume	Sales volume	Sales value (MNT m)
Bulgan	Buregkhangai	Gold	kg	385.22	406.00	35,909
		Molybdenum concentrate	kg	20.77	0	0
		Silver	kg	31.44	32.92	35
Bulgan, Tuv	Buregkhangai, Zaamar	Gold	kg	493.93	493.98	43,273
		Silver	kg	3.28	35.73	38
	Dashinchilen, Zaamar	Gold	kg	67.24	67.24	6,355
		Silver	kg	7.20	7.21	9
Gobi-Altai	Chandmani	Coal	'000 tons	4.00	2.98	127
Darkhan-Uul	Darkhan	Bricks	'000 unit	1,104.60	970.54	172
	Khongor	Limestone	'000 tons	2.41	2.41	36
	Sharyn-Gol	Coal	'000 tons	761.90	753.70	32,184
		Gold	kg	39.49	39.50	3,523
		Silver	kg	3.25	3.25	3
Dornogovi	Airag	Manganese concentrate	'000 tons	0.67	0.67	95
		Manganese ore	'000 tons	28.08	28.08	2,096
	Dalanjargalan	Coal	'000 tons	642.17	378.78	23,096
		Crushed rock	'000 tons	144.51	144.50	2,874
		Fluorspar	'000 m3	7.78	10.94	2,930
	Mandakh	Coal	'000 tons	1.20	18.08	772
	Mandakh, Khuvsgul	Coal	'000 tons	268.24	279.00	26,186
	Urgun	Limestone	'000 tons	264.30	81.80	11,083
Dornod	Bayandun	Gold	kg	31.34	31.34	2,861
		Silver	kg	2.34	2.52	3
	Bayantumen	Coal	'000 tons	568.90	584.50	24,959
Dundgovi	Bayanjargalan	Fluorspar	'000 tons	1.54	1.54	220
	Delgerkhangai	Gypsum	'000 tons	28.79	11.34	377
Zavkhan	Durvuljin	Gold	kg	559.56	559.49	48,609
		Silver	kg	1.85	2,233.29	2,533
Orkhon	Bayan-Undur, Jargalant	Copper concentrate	'000 tons	657.35	657.35	1,173,466
		Molybdenum concentrate	'000 tons	5.78	5.78	58,639
Uvurkhangai	Nariinteel	Coal	'000 tons	149.30	149.30	6,375
	Uyanga	Gold	kg	27.77	27.77	2,481
		Silver	kg	0.40	4.38	5
Umnugobi	Gurvantes	Coal	'000 tons	11,183.10	11,916.37	1,118,337
	Noyon	Coal	'000 tons	35.20	88.60	3,783
	Tsogttsetsii	Coal	'000 tons	10,290.00	8,137.58	758,402
	Khanbogd	Copper concentrate	'000 tons	846.56	825.39	2,546,079
	Khankhongor	Crushed rock	'000 tons	11.97	11.96	239
Sukhbaatar	Sukhbaatar	Zinc concentrate	'000 tons	86.68	101.27	150,223
	Tumentsogt	Fluorspar	'000 tons	2.24	0.00	0
		Fluorspar ore	'000 tons	8.00	8.15	300
		Fluorspar concentrate	'000 tons	9.00	9.47	5,295
	Erdenetsagaan	Coal	'000 tons	0.00	7.73	395
Selenge	Bayangol	Gold	kg	6.21	6.21	608
		Silver	kg	0.24	0.24	0

Regional sales and production by aimags and soums						
Aimag	Soum	Mineral type	Unit	Production volume	Sales volume	Sales value (MNT m)
Selenge	Orkhontuul	Gold	kg	2.66	2.66	252
		Silver	kg	0.17	0.17	0
	Tushig	Coal	'000 tons	0.00	3.01	129
Tuv	Altanbulag	Crushed rock	'000 tons	128.74	156.39	1,563
		Gravel	'000 tons	32.80	43.80	353
	Bayan	Gold	kg	22.69	38.95	3,403
		Coal	'000 tons	29.42	29.42	1,256
		Limestone	'000 tons	141.25	143.48	3,182
		Marble	'000 tons	18.26	18.26	162
	Bayantsagaan	Limestone	'000 tons	5.00	5.00	46
	Bayanchandmani	Tungsten concentrate	'000 tons	0.32	3.16	3,667
	Zaamar	Gold	kg	1,095.30	1,110.72	96,375
		Silver	kg	93.91	111.91	102
	Sergelen	Gold	kg	36.88	36.88	3,413
		Silver	kg	0.00	2.84	257
	Erdene	Limestone	'000 tons	23.77	23.78	238
Tuv, Ulaanbaatar	Altanbulag, Khan Uul	Gravel	'000 tons	40	130.97	314
	Bayandelger, Baganuur	Coal	'000 tons	3,913.80	3,908.00	166,876
Ulaanbaatar	Bayanzurkh	Crushed rock	'000 tons	79.97	0.11	1,139
	Nalaikh	Bricks	'000 unit	1,320.00	3,388.04	374
		Gravel	'000 tons	19.48	26.33	233
		Sand	kg	8.27	19.72	133
	Songinokhaikhan	Bricks	'000 unit	6,760.00	1,816.93	301
	Khan-Uul	Crushed rock	'000 tons	35.80	35.80	322
		Gravel	'000 tons	168.06	164.48	1,817
Uvs	Bukhmurun	Coal	'000 tons	106.10	106.10	4,531
Khovd	Darvi	Coal	'000 tons	1,073.49	610.13	43,238
Khentii	Bayan ovoo	Fluorspar ore	'000 tons	2.31	3.00	730
		Fluorspar concentrate	'000 tons	4.00	1.17	454
		Fluorspar ore	'000 tons	1.00	0.00	0
	Jargaltkhaan, Tsenkher	Gold	kg	0.00	0.90	84
		Silver	kg	0.00	0.21	0
	Murun	Coal	'000 tons	42.01	42.28	1,805
	Tsenkher	Fluorspar	'000 tons	0.00	0.01	3,198
	Tsenkher mandal	Tin concentrate	'000 tons	0.01	0.01	101
		Tungsten concentrate	'000 tons	0.01	0.02	289

Source: the Mineral Resources and Petroleum Authority of Mongolia

#### 5.1.4 Petroleum overview

Out of 32 crude oil fields, Mongolia has three operational petroleum production sites, 22 areas in which exploration activities are being undertaken and the remaining areas are in the search stage. The three production sites are operated by two companies, one of which (PetroChina Daqing Tamsag LLC, a subsidiary of PetroChina) produces and exports most of the petroleum. Produced petroleum is exported in the form of crude oil as there is no facility in Mongolia to process the oil. Petroleum products for domestic use in Mongolia are primarily imported from Russia.

##### 5.1.4.1 Significant exploration activities (REQ 3.1)

The following table shows details of exploration activities performed with private fund as reported by MRPAM.

Privately funded petroleum exploration projects in 2016					
Area name	Location	Feasibility study	Approved reserve	Reserve size	Exploration period
Uvs	Uvs	Not performed	Undetermined	Undetermined	2015-2023
Khar-Us	Uvs, Khovd, Zavkhan, Gobi-Altai	Not performed	Undetermined	Undetermined	2015-2023
Bogd	Bayankhongor, Gobi-Altai, Ovorkhangai	Not performed	Undetermined	Undetermined	2009-2019
Ongi	Ovorkhangai, Dundgobi	Not performed	Undetermined	Undetermined	2009-2019
Borzon	Umnu-Gobi	Not performed	Undetermined	Undetermined	2009-2017
Tuhum	Umnu-Gobi, Dundgobi, Dorno-Gobi	Not performed	Undetermined	Undetermined	2012-2020
Galba	Umno-Gobi, Dorno-Gobi	Not performed	Undetermined	Undetermined	2009-2019
Ergel	Dorno-Gobi	Not performed	Undetermined	Undetermined	2016-2024
Tariach	Dorno-Gobi	Not performed	Undetermined	Undetermined	2007-disputable
Nyalga	Central, Khentii, Dund-Gobi, Gobisumber	Not performed	Undetermined	Undetermined	2007-disputable
Bayantumen	Dornod	Not performed	Undetermined	Undetermined	2009-2019
Khukh Nuur	Dornod	Not performed	Undetermined	Undetermined	2009-2018
Matad	Dornod	Not performed	Undetermined	Undetermined	2007-2018
Sulinkheer	Dorno-Gobi	Not performed	Undetermined	Undetermined	2009-2018
Dariganga	Sukhbaatar	Not performed	Undetermined	Undetermined	2011-2019
Sukhbaatar	Sukhbaatar	Not performed	Undetermined	Undetermined	2013-2021
Kherlen Tokhoi	Dornod, Sukhbaatar	Not performed	Undetermined	Undetermined	2015-2023
Arbulag	Dornod, Sukhbaatar	Not performed	Undetermined	Undetermined	2016-2024

Source: the Mineral Resources and Petroleum Authority of Mongolia

During 2016, two new PSAs were signed: Arbulag (XXIX) with Max Oil LLC and Ergel (XIII) with Smart Oil Investment LLC, however corresponding licences were obtained in 2017. In the same period, a PSA for Buir (XXII) was expired.

In addition, the following table shows details of exploration work performed by PetroChina Daqing Tamsag and Dong Sheng Jonggong Petroleum Development Group as reported by MRPAM:

Privately funded petroleum exploration projects by production licence holders				
Area	Area name	PSA holder	Geology and exploration work	Expenditures (USD million)
XIX	Toson-Uul	PetroChina Daqing Tamsag	<ul style="list-style-type: none"> <li>- Drilled 21 borehole, carotene and cementation carried out. (12 boreholes up to 2500m, 9 boreholes with depth more than 2500m)</li> <li>- Conducted perforation 51 times in 1863 m depth</li> <li>- Liquid drilling in 45 boreholes</li> <li>- Oil extraction of 57214,781 tons</li> <li>- 2,589.52 tn liquid pumped from the drill hole</li> <li>- Removal of underground equipment from 5 boreholes.</li> <li>- 8 hydrogeological survey conducted and water boreholes drilled.</li> <li>- Refined 9000 m3 oily cutting, technological waste.</li> <li>- Installation of pumps and maintenance work for 289 boreholes.</li> <li>- Carotene work conducted for 241 operating borehole.</li> <li>- Other activities</li> </ul>	82.75
XXI	Tamsag	PetroChina Daqing Tamsag	<ul style="list-style-type: none"> <li>- Drilled 18 boreholes, carotene and cementation work carried out. (18 boreholes with depth up to 2500m, 0 boreholes with depth more than 2500m)</li> <li>- Conducted perforation 60 times in 1678 m depth</li> <li>- Liquid drilling in 70 boreholes and 143 levels</li> <li>- Installation of pumps and maintenance work for 281 boreholes</li> <li>- Carotene work conducted for 275 operating boreholes</li> <li>- Other activities</li> </ul>	85.41
PSA 97	PSA-97	Dong Sheng Jonggong Petroleum Development Group	<ul style="list-style-type: none"> <li>- Installation of pumps and maintenance work for 40 boreholes</li> <li>- 4 boreholes switched into water pump</li> <li>- Installation of surface equipments for 4 boreholes which were switched to water pump</li> <li>- Measurements and adjustments were made for 2 boreholes</li> <li>- Replacement of fastening pipe and rammer in 4 boreholes</li> <li>- Other activities</li> </ul>	6.25

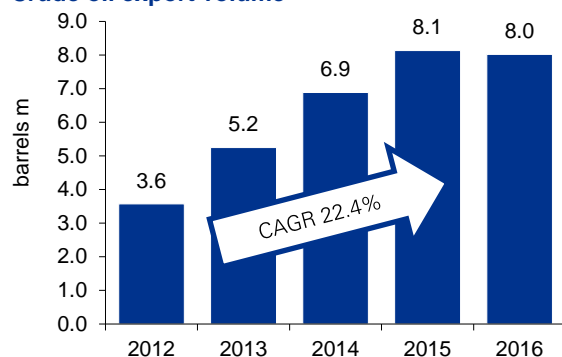
Source: the Mineral Resources and Petroleum Authority of Mongolia

#### 5.1.4.2 Petroleum products (REQ 3.2)

##### Crude oil

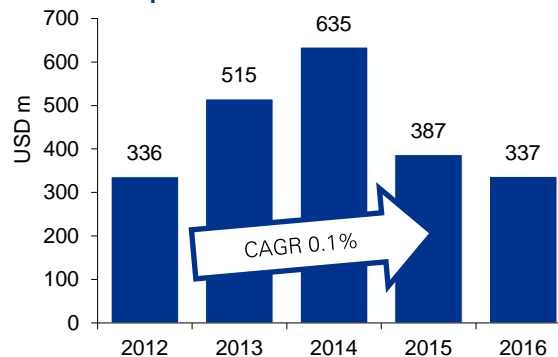
According to Bloomberg Business, crude oil price averaged USD 50.75 per barrel and USD 42.81 per barrel in 2015 and 2016, respectively, which was mainly caused by oversupply by Saudi Arabia and Russia. Although Mongolian crude oil export volume has been increasing, exported crude oil value showed a decrease in 2015 and an even further decrease in 2016.

Crude oil export volume



Source: Prepared based on the data from Mongolian Customs Agency

Crude oil export amount



Source: Prepared based on the data from Mongolian Customs Agency

#### 5.1.4.3 Key production regions and exports (REQ 6.2, REQ 3.3)

During 2016, the three production areas produced 8.25 million tonnes of crude oil and exported 8.06 million tonnes. PSA XIX and PSA XXI are located in Matad and Khalkhgol soums of Dornod aimag and PSA-97 is located in Sainshand soum, Dornogobi aimag.

2016 production and exports of petroleum			
Entity	Area code	Production (barrels '000)	Export (barrels '000)
Petrochina Daqing Tamsag LLC		7,884	7,704
Toson-Uul	XIX	4041	3,819
Tamsag	XXI	3843	3,885
Dong Sheng Jonggong Petroleum Development Group	97	369	358
<b>Total</b>		<b>8,253</b>	<b>8,062</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

#### 5.1.4.4 PSA and other in-kind revenues (REQ 4.2)

PSA and related petroleum matters are governed by the Petroleum Law. The PSA template is disclosed on the MRPAM website under the legislation tab. Please refer to the following link to access the template: <https://mrpam.gov.mn/article/18/>

According to MRPAM, 25 PSAs have been signed with 21 EI companies. Not all PSAs are publicly disclosed, however, 4 PSAs are currently publicly available. Please refer to Section 5.5.2.2 for more detail.

Petrochina Daqing Tamsag LLC and Dong Sheng Oil Mongolia LLC are 2 entities conducting crude oil extraction activities in 3 different areas. Petrochina Daqing Tamsag LLC has 2 PSAs in Toson-Uul and Tamsag areas, and Dong Sheng Oil Mongolia LLC has 1 PSA in Zuunbayan areas.

According to the Petroleum Law, petroleum producing entities share their revenue from extracted crude oil with GoM at a percentage specified in the PSA signed with the GoM. MRPAM stated that companies pay in cash from the sale to the Government for its share under current arrangements.

Based on the PSA template, crude oil extraction licence holders make two payments to the government: the government's share of the crude oil and royalties. The GoM's 2016 share of revenue including royalties amounted to MNT 133.7 billion.

Revenue received by the government in 2016 under PSA		MNT m
Company	GoM's share of revenue	Royalty
PetroChina Daqing Tamsag LLC	107,771	18,360
Dong Sheng Oil Mongolia LLC	5,329	2,238
Totals	113,100	20,598
<b>Total revenue and royalty</b>		<b>133,698</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

### 5.1.5 Uranium overview (REQ 3.1)

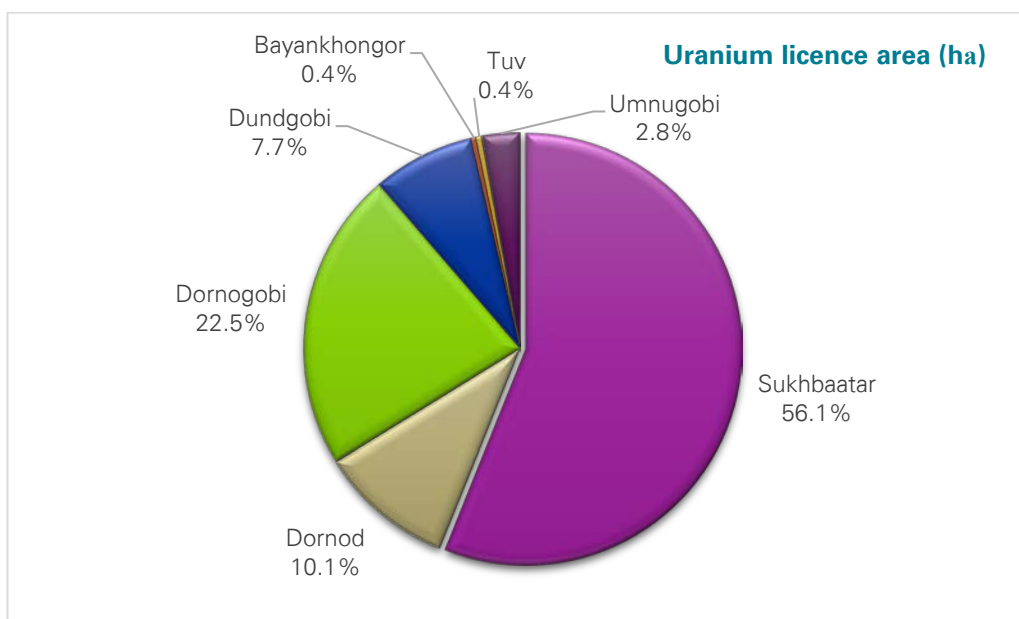
The main use of uranium is to power nuclear power plants. NEC is a GoM authority that issues licences to perform uranium exploration and production activities. As of 31 December 2016, Mongolia had 9 uranium production licences held by 4 EI entities and 22 uranium exploration licences held by 7 EI entities.

The following table shows the list of uranium licences as of 31 December 2016. Please refer to Appendix 22.a and 22.b for more details.

Uranium license						
License number	Company reg number	Company name	Aimag	Soum	Area name	Area /ha/
MV-000247	2830213	Xin Xin	Dornod	Bayandun, Dashbalbar	Ulaan	101.58
MV-013555	5035902	Xunbo'o	Dornod	Dashbalbar	Muxar-1	25.09
MV-018914	5502977	Areva mines	Dornogobi	Ulaanbadrax	Umnut	2464.93
MV-018915	5502977	Areva mines	Dornogobi	Ulaanbadrax	Zuuvch ovoo	18813.05
MV-018916	5502977	Areva mines	Dornogobi	Ulaanbadrax	Dulaan uul	32014.45
MV-020629	2074737	Gurvansaixan	Dundgobi	Ulziit	Xairxan	4628.42
MV-020631	2074737	Gurvansaixan	Dundgobi	Gurvansaixan	Gurvansaixan	2810.44
MV-020633	2074737	Gurvansaixan	Dundgobi	Bayanjargalan, Undurshil	Choir	10386.24
MV-020634	2074737	Gurvansaixan	Suxbaatar	Tuvshinshree, Uulbayan	Ulziit	10665.22
XV-003367	2672146	Adamasmining	Dornod	Gurvanzagal, Dashbalbar	Erxt ovoot tolgoi	39694.34
XV-007856	5077834	Zaraiya Holdings	Dornogobi	Ulaanbadrax	Gargan tolgoi	11692.43
XV-009688	5633028	Lucii	Tuv	Bayan	Enger ar	1647.48
XV-010081	5633028	Lucii	Dornogobi	Airag	Ulaan nuur	1504.06
XV-011921	2078449	Cogegobi	Dornogobi	Ulaanbadrax	Dulaan	8049.71
XV-011946	2078449	Cogegobi	Dornogobi	Ulaanbadrax	Zuuvch ovoo	2198.71
XV-012251	2078449	Cogegobi	Dornogobi	Ulaanbadrax	Bogd uul	12153.19
XV-012685	5530725	Alcalli metal mongolia	Dundgobi	Ulziit	Xux del	12410.94
XV-013082	5633028	Lucii	Bayanxongor	Jinst	Sevsuulin bulag	1538.44
XV-013387	5633028	Lucii	Umnugobi	Bulgan	Unegt	11050.33
XV-013871	2078449	Cogegobi	Suxbaatar	Erdenetsagaan	Borolt uxaa	13147.56
XV-013907	2078449	Cogegobi	Suxbaatar	Asgat, Dariganga	Shuut	26533.73
XV-013908	2078449	Cogegobi	Suxbaatar	Ongon	Xar toirom	18055.98
XV-013912	2078449	Cogegobi	Suxbaatar	Erdenetsagaan	Xux nuden	13875.55
XV-014017	2078449	Cogegobi	Suxbaatar	Dariganga, Naran	Dund nart	52677.4
XV-014429	2078449	Cogegobi	Suxbaatar	Ongon	Uxaa ovoo	48915.7
XV-014478	2078449	Cogegobi	Suxbaatar	Erdenetsagaan	Usan tolgoi	5374.65
XV-014722	2078449	Cogegobi	Suxbaatar	Erdenetsagaan	Xairxan	32010.01
XV-018243	5150884	Mongol uranium resource	Dornogobi	Sainshand, Saixandulaan, Ulaanbadrax	Shuvuun uul	117300.65
XV-018247	5150884	Mongol uranium resource	Suxbaatar	Erdenetsagaan	Xermin tsagaan undur	208135.06
XV-018953	5976723	MonCheh Uranium	Xentii	Norovlin	Xolboo	23801.22
XV-020847	2078449	Cogegobi	Dornogobi	Ulaanbadrax	Bogd uul	4927.19

Source: the Mineral Resources and Petroleum Authority of Mongolia

The graph below shows uranium licenced areas in terms of hectares:



Source: Prepared based on data from the Mineral Resources and Petroleum Authority of Mongolia



## 5.2 El licences

Mineral and petroleum related operations require different licences and licensing processes. Mineral licensing processes are described in Section 5.2.1 and petroleum licensing processes are described in 5.2.2.

Bayanxongor, Dornod, Dornogovi, Dundgovi, Govi-Altai, Omnogovi, Suxbaatar, Uvs, Xentii, and Zavxan aimags contain the largest licenced areas, amounting 78.8% of the total area licenced nationally. The following table shows the geographical locations of the mineral licences as of 31 December 2016.

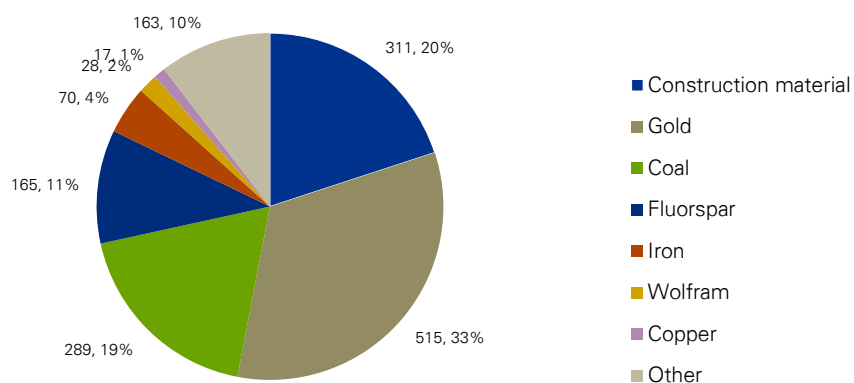
Mineral licences by geographic regions							
	Licence counts			Area (ha)			
	Exploration	Production	Total	Exploration	Production	Total	Area %
Arxangai	15	21	36	66,071	12,442	78,512	0.6%
Ovorxangai, Arxangai	-	5	5	-	3,997	3,997	0.0%
Bayan-Olgii	63	25	88	320,892	10,628	331,520	2.5%
<b>Bayanxongor</b>	<b>98</b>	<b>82</b>	<b>180</b>	<b>482,790</b>	<b>58,523</b>	<b>541,313</b>	<b>4.0%</b>
Zavxan, Bayanxongor	2	-	2	8,038	-	8,038	0.1%
Bulgan	63	44	107	391,586	13,610	405,196	3.0%
Bulgan, Orxon	3	1	4	192,846	54	192,900	1.4%
Bulgan, Selenge	1	4	5	1,699	2,624	4,322	0.0%
Bulgan, Tov	2	16	18	1,587	8,101	9,688	0.1%
<b>Govi-Altai</b>	<b>146</b>	<b>43</b>	<b>189</b>	<b>1,238,017</b>	<b>66,198</b>	<b>1,304,215</b>	<b>9.7%</b>
Zavxan, Govi-Altai	1	-	1	16,829	-	16,829	0.1%
Govi-Altai, Xovd	2	-	2	6,282	-	6,282	0.0%
Govisumber	5	7	12	35,225	32,333	67,558	0.5%
Govisumber, Dornogovi	1	2	3	10,899	8,412	19,311	0.1%
Dundgovi, Govisumber	1	2	3	16,413	505	16,919	0.1%
Tov, Govisumber	-	1	1	-	524	524	0.0%
Darxan-Uul	20	60	80	14,960	7,301	22,261	0.2%
Selenge, Darxan-Uul	3	8	11	4,815	3,977	8,792	0.1%
<b>Dornogovi</b>	<b>282</b>	<b>159</b>	<b>441</b>	<b>1,924,862</b>	<b>176,419</b>	<b>2,101,280</b>	<b>15.6%</b>
Dundgovi, Dornogovi	1	-	1	4,200	-	4,200	0.0%
Dornogovi, Omnogovi	4	-	4	77,862	-	77,862	0.6%
Dornogovi, Suxbaatar	1	-	1	12,901	-	12,901	0.1%
Dornogovi, Xentii	4	2	6	8,850	115	8,965	0.1%
<b>Dornod</b>	<b>130</b>	<b>67</b>	<b>197</b>	<b>616,128</b>	<b>55,135</b>	<b>671,262</b>	<b>5.0%</b>
Dornod, Suxbaatar	1	-	1	21,397	-	21,397	0.2%
<b>Dundgovi</b>	<b>140</b>	<b>83</b>	<b>223</b>	<b>905,649</b>	<b>145,747</b>	<b>1,051,396</b>	<b>7.8%</b>
Ovorxangai, Dundgovi	2	-	2	50,997	-	50,997	0.4%
Dundgovi, Omnogovi	1	-	1	14,369	-	14,369	0.1%
Dundgovi, Tov	2	-	2	4,821	-	4,821	0.0%
<b>Zavxan</b>	<b>78</b>	<b>6</b>	<b>84</b>	<b>541,421</b>	<b>12,355</b>	<b>553,776</b>	<b>4.1%</b>

Mineral licences by geographic regions							
	Licence counts			Area (ha)			Area %
	Exploration	Production	Total	Exploration	Production	Total	
Uvs, Zavxan	3	1	4	7,864	20	7,884	0.1%
Orxon	1	8	9	44	4,137	4,182	0.0%
Ovorxangai	25	24	49	101,230	12,023	113,252	0.8%
<b>Omnogovi</b>	<b>156</b>	<b>91</b>	<b>247</b>	<b>1,546,122</b>	<b>491,613</b>	<b>2,037,735</b>	<b>15.1%</b>
<b>Suxbaatar</b>	<b>58</b>	<b>58</b>	<b>116</b>	<b>809,801</b>	<b>48,358</b>	<b>858,158</b>	<b>6.4%</b>
Suxbaatar, Xentii	3	-	3	11,786	-	11,786	0.1%
Selenge	59	117	176	121,227	26,230	147,457	1.1%
Selenge, Tov	5	3	8	5,364	3,446	8,810	0.1%
Tov	152	257	409	376,470	125,043	501,513	3.7%
Ulaanbaatar, Tov	2	13	15	200	5,434	5,635	0.0%
<b>Uvs</b>	<b>172</b>	<b>41</b>	<b>213</b>	<b>909,069</b>	<b>15,050</b>	<b>924,119</b>	<b>6.9%</b>
Uvs, Xovd	5	-	5	45,898	-	45,898	0.3%
Ulaanbaatar	20	160	180	2,224	8,031	10,256	0.1%
<b>Xovd</b>	<b>105</b>	<b>28</b>	<b>133</b>	<b>491,498</b>	<b>11,403</b>	<b>502,901</b>	<b>3.7%</b>
Xovsgol	17	18	35	103,381	7,629	111,010	0.8%
<b>Xentii</b>	<b>166</b>	<b>101</b>	<b>267</b>	<b>539,137</b>	<b>34,149</b>	<b>573,286</b>	<b>4.3%</b>
<b>Grand Total</b>	<b>2,021</b>	<b>1,558</b>	<b>3,579</b>	<b>12,063,721</b>	<b>1,411,566</b>	<b>13,475,287</b>	<b>100.0%</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

Note: Bolded figures in the Total column represent the top 10 aimags containing 78.8% of the total area licenced nationally

The 1,558 production licences have been issued for 63 different types of minerals. The following chart shows the major mineral types. There are 515 production licences for gold production, representing 33% of the total licences, followed by 311 licences for the mining of construction materials, representing 20% of the total, and 289 coal production licences, representing 19% of the total.



Source: Prepared based on the data from the Mineral Resources and Petroleum Authority of Mongolia

## 5.2.1 Mining licensing

Mineral exploration and production processes are governed by the Minerals Law (<http://www.legalinfo.mn/law/details/63?lawid=63>). According to the Minerals Law, the cadastre unit of MRPAM issues both exploration and production licences.

### 5.2.1.1 Mineral licence award and transfer process (REQ 2.2)

#### Mineral exploration licence awarding process

The following table summarises the process for awarding a first-time exploration licence; i.e. where no other entity has held an exploration licence for the requested area.

Exploration licence awarding process - initial issuance		
Steps	Authority	Action
Step 1	MRPAM	Obtain application number
Step 2	MRPAM	Submit application with: <ul style="list-style-type: none"> <li>- Request to receive exploration licence;</li> <li>- Requestor's official description;</li> <li>- Copy of state registration certificate;</li> <li>- 2 copies of map showing location, intersection and boundaries of area requested for exploration;</li> <li>- Application fee payment;</li> <li>- Document showing required professional staffing;</li> <li>- Evidence of tax-payer residence in Mongolia; and</li> <li>- Exploration work plan showing work scope, duration and cost.</li> </ul>
Step 3	Cadastre unit of MRPAM	Check topography of the requested area and determine whether it is available.
Step 4	Governor's office	Send exploration licence request to aimag or Capital Governor's office to respond within 30 days. If no response is given within 30 days, MRPAM assumes the Governor approved the request.
Step 5	MRPAM	Pay for annual fee for the first year within 10 business days.
Step 6	Cadastre unit of MRPAM	Issue exploration licence for 3 years. Exploration licence can be extended three times for 3 years each.

Source: the Minerals Law

#### Mineral production licence awarding process

According to the Minerals Law, an existing exploration licence holder applying for a production licence is considered before other applicants for production licences in the same area.

Process to change exploration licence into production licence		
Steps	Authority	Action
Step 1	MRPAM	Submit request <ul style="list-style-type: none"> <li>- Exploration licence must not be expired;</li> <li>- Evidence showing that rehabilitation work is performed as planned when requesting for exploration licence along with statements from regional governor and environmental and water inspector(s);</li> <li>- Reserve must be approved by the Mineral Council;</li> <li>- Topography showing location of the area, including soum, aimag or district, city;</li> <li>- Copy of state registration certificate;</li> <li>- Evidence of tax-payer residence in Mongolia;</li> <li>- Application fee payment; and</li> <li>- Environmental impact study.</li> </ul>
Step 2	Legal unit of MRPAM	Determine if there is any restriction for legal authorities and no unpaid amount is remaining.
Step 3	Cadastre unit of MRPAM	Check if the exploration licence is registered in Cadastral system.
Step 4	Cadastre unit of MRPAM	Check topography to make sure the area in interest does not overlap with other licenced area, water reserves, special purpose area and protected reserves.

Process to change exploration licence into production licence		
Steps	Authority	Action
Step 5	Coal and mining unit of MRPAM	Check if the requestor is capable of undertaking production and rehabilitation work.
Step 6	Legal unit of MRPAM	Check whether the requestor complied with the plans of the head of Cadastre unit and other laws and regulations.
Step 7	Cadastre unit of MRPAM	Approves the topography with coordinates. MRPAM reviews production licence submission and must respond within 20 business days. If denied, cause and legal precedence must be included as part of the denied response.
Step 8	MRPAM	Pay annual fee for the production licence within 10 days from receiving approval notice
Step 9	Cadastre unit of MRPAM	Issues production licence for 30 years within 3 days from first annual fee payment. Production licence can be extended twice for 20 years each.

Source: the Minerals Law

### Mineral licence bidding process

Exploration and production licences may be issued via public bidding, if one of the following criteria is met:

- Entity that carried out the exploration work did not apply for a production licence;
- Exploration work was performed with state funding;
- Production licence was retracted due to non compliance with law or by court decision; and
- Production licence period expired.

For more details of bid criteria, please see Appendix 18.a

Exploration and production licence bidding process - reissuance		
Steps	Authority	Action
Step 1	MRPAM	Issue order to begin bidding process
Step 2	MRPAM	Announce bid invitation to the public
Step 3	MRPAM	Receive bid offers. Bid closing date shall be no shorter than 30 days from initial invitation announcement for bidding. Bidders must submit: <ul style="list-style-type: none"> <li>- Request to participate in bidding process;</li> <li>- Bidder's official description;</li> <li>- Copy of state registration certificate;</li> <li>- Evidence of tax-payer residence in Mongolia;</li> <li>- Evidence of bid guarantee deposit;</li> <li>- Exploration work plan showing work scope, duration, cost and environmental preservation and protection expenses;</li> <li>- Notarised list of machinery and equipment to be used for exploration;</li> <li>- Notarised document showing required professional staffing;</li> <li>- Advanced methods and technological solutions for exploration, production and rehabilitation;</li> <li>- Area map showing location and coordination; and</li> <li>- Pay application fee.</li> </ul>
Step 4	Selection committee of MRPAM	Open technical bid offers (at the presence of all eligible participants (one representative per participant))
Step 5	Selection committee of MRPAM	Grade bidders documents based on: <ul style="list-style-type: none"> <li>- Technical (55%) <ul style="list-style-type: none"> <li>o Exploration work plan showing work scope, duration, cost and environmental preservation and protection expenses;</li> <li>o Notarised list of machinery and equipment to be used for exploration;</li> <li>o Notarised document showing required professional staffing;</li> <li>o Advanced methods and technological solutions for exploration, production and rehabilitation; and</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>o Plans to cooperate with the local community.</li> <li>- Financial criteria (45%)</li> </ul>
Step 6	Selection committee of MRPAM	Open price bid offers
Step 7	MRPAM	Approve the decision of selection committee. The winner of the bid is announced within 5 business day after bids are graded
Step 8	MRPAM	Pay for annual fee for the first year within 10 business days after the head of MRPAM's decision is made
Step 9	Cadastre unit of MRPAM	Issue licence based on the decision of the head of MRPAM and the selection committee's decision.

Source: Minerals Law

### Mineral licence transfer process

Mineral licences can be completely or partially transferred between entities under the following conditions:

- If a licence holder merges with another entity, the licence can be transferred to the newly formed entity;
- Subsidiary entities can transfer the licence to their parent entities;
- If an entity purchased original documents and reports of search and exploration works and paid related taxes, the licence can be transferred; and
- If an entity purchased mine technical equipment and documents and paid related taxes, the licence can be transferred.

Exploration and production licence complete and partial transfer procedures		
Steps	Authority	Action
Step 1	MRPAM Cadastre unit	<p>The transferring entity prepares:</p> <ul style="list-style-type: none"> <li>- Transferring licence document;</li> <li>- Copy of state registration certificate;</li> <li>- Evidence of tax payer in Mongolia;</li> <li>- Evidence showing that the licence receiving entity accepts rights and responsibilities of the transferring entity;</li> <li>- Evidence showing that rehabilitation work is done as planned if production licence is transferred;</li> <li>- Evidence of 50% of annual rehabilitation expense deposited to a bank account set up by a local governor;</li> <li>- Exploration work plan showing work scope, duration, cost and nature preservation and protection expenses; and</li> <li>- Application fee payment.</li> </ul>
Step 2	MRPAM Cadastre and Legal units	<p>Check the following:</p> <ul style="list-style-type: none"> <li>- Document completeness;</li> <li>- Validity of licence to be transferred;</li> <li>- Recipient's state registration certificate and evidence of tax payer in Mongolia;</li> <li>- Timely payment of annual licence fees; and</li> <li>- Sufficient exploration expenses are spent. The minimum are: <ul style="list-style-type: none"> <li>o 2-3 year: USD 0.5 per ha</li> <li>o 4-6 years: USD 1 per ha</li> <li>o 7-9 years: USD 1.5 per ha</li> <li>o 10-12 years: USD 10 per ha.</li> </ul> </li> </ul>
Step 3	MRPAM Cadastre unit	<p>Make one of the following decisions within 5 business days from checking documents in Step 2</p> <ul style="list-style-type: none"> <li>- Approve the transfer</li> <li>- Request additional documents if the submitted documents are not sufficient; and</li> <li>- Refuse if the recipient is not eligible to receive the licence or if the licence is invalid.</li> </ul>

Source: Minerals Law

### Check of non-trivial deviations from applicable laws and regulations

During the M.EITI Inception Workshop, it was agreed by MSG to use risk based approach in checking non-trivial deviations of licence award and transfer processes from applicable laws and regulations. The methodology includes MSG providing list of licenses that deemed risky and the IA to take a random sample of licences from the unrisky pool of licenses that were awarded and transferred in 2016.

MSG considered 6 licenses awarded (XV-016319, XV-020580, XV-19691, XV-20704, MV-020875, MV-020877) and 2 licenses transferred (MV-009515, MV-020419) in 2016 as risky and requested IA to check. In addition, the IA randomly selected 44 licences from the pool considered non-risky (17 awarded, 17 transferred and 10 through bidding processes). A total of 52 licenses were checked at the end.

For awarded exploration licences, we found that MongolRossTsvetment LLC's XV-020580 (one of risky licences) and Monlaa LLC's XV-017130 had discrepancy. MongolRossTsvetment LLC's XV-020580 licence was awarded based on the Government Resolution 359, dated 7 September 2015. Therefore, it missed many of the relevant documents required by relevant regulations such as application for exploration license, an official identification of the applicant, copy of the state registration certificate, a map showing the location, border and area coordinates where requested to explore, Information on employees professional capacity to conduct exploration work, evidence proving a Mongolian taxpayer, checking of the coordinates of the exploration area, related documents and opinion of Citizens' Representatives and Local authorities.

For the case of Monlaa LLC, the licence XV-017130 was granted based on resolution 72 of 2 February 2010, resolution 189 of 28 May 2009 and resolution 281 of 28 June 2010 of the Administrative Court of the Capital City. As such, it missed an application for exploration license and an official identification of the applicant.

For awarded production licences, we found that 11 licences lacked documents showing notifying relevant institutions and publishing the award in a daily newspaper. For the transferred licences, we found that 6 licences missed reference document showing transferring and remaining areas. No other discrepancy was found for transferred licences.

Please refer to Appendix 15 for details of the non-trivial deviations check.

### “Mining for Sustainable Development” Study

Transparency International Mongolia, a Mongolian branch of Transparency International conducted the “Mining for Sustainable Development” study to assess the corruption risk in the mining licence awarding process. The report was released in 2017. The main objective of the study was to determine drawbacks of the system, regulation and relevant organisation's disadvantages that might be encouraging corruption factors during the award, transfer and contracting process of the mining licences. The licensing procedures, responsibilities of the licencees and the administrative system of MRPAM were selected as the scope of the study. The study involved a six-member consultancy team.

The main outcome of the study was the identification of 14 corruption risks arisen from 54 drawbacks determined in accordance with Risk Assessment of Corruption of Awarding the Mining Licences methodology. According to the study, the 54 drawbacks and associated 14 corruption risks can be divided into five categories, namely, legal issues, technology issues, responsibility issues, issues related to decisions made based on personal judgement and issues related to the accreditations of mining licence applicants and assessment firms. The study provided detailed recommendations for all 14 corruption risks identified.

For a full report, please refer to following web link: <http://www.transparency.mn/content/17526.shtml>.

### 5.2.1.2 Mineral licence awards and transfers in 2016

Depending on the phase of their development, mining entities are required to hold exploration or production licences to operate in Mongolia. At the end of 2016, 2,058 companies held a total of 3,579 exploration and production licences. Please refer to Appendix 16 for details.

Total number of licences by types					
Type	2015	2016	Added	Removed	Transferred
Exploration	2,018	2,021	623	(620)	52
Production	1,489	1,558	93	(24)	96
<b>Total</b>	<b>3,507</b>	<b>3,579</b>	<b>716</b>	<b>(644)</b>	<b>148</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

The number of licences increased by 72 from 3,507 as of 31 December 2015 to 3,579 as of 31 December 2016. From end of 2015 to end of 2016, 644 licences were returned to MRPAM due to licence period expiration and commercial viability issues. More uncommon reasons for returning licences included insufficient funding for further development and/or missed payments.

### Mineral exploration licences awarded in 2016

The following table shows the exploration licences awarded in 2016. Please see Appendix 17.a for full details.

Exploration licences awarded in 2016		
Aimags	Area size (ha)	Number of licences awarded
Bayan-Olgii	16,648	14
Bayankhongor	3,233	7
Bulgan	34,778	19
Gobi-Altai	162,441	37
Gobisumber	19,588	4
Darkhan - Uul	4,389	2
Dornogobi	646,690	114
Dornod	239,062	56
Dundgobi	461,943	67
Zavkhan	149,873	19
Ovorkhangai	-	1
Omnogobi	145,025	30
Sukhbaatar	23,331	6
Selenge	40,620	27
Central	228,256	99
Uvs	39,308	5
Khovd	43,479	22
Khentii	303,204	94
<b>Grand Total</b>	<b>2,561,868</b>	<b>623</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

## Mineral production licences awarded in 2016

93 production licences have been issued for different types of minerals in 2016. The following table shows a summary by major mineral types, region, area size and total number of special licences in each region. Refer to Appendix 17.b for full details of the production licences.

Production licences awarded in 2016			
Aimags	Mineral type	Total area size (ha)	Number of licences awarded
Bayankhongor	Gold and copper	5,595.72	7
Bulgan	Gold, iron, construction material	3,808.86	5
Gobi-Altai	Molybdenum, gold, copper, gold and coal	40,676.79	15
Gobisumber	Construction material	129.35	1
Darkhan-Uul	Construction material	145.99	1
Dornogobi	Construction material, crystal, fluorspar, lanthanum, cerium, iron	2,106.91	6
Dornod	Gold, coal	14,861.24	5
Dundgobi	Plumbago, construction material, gypsum, uranium	26,419.49	6
Zavkhan	Gold	1,639.24	1
Orkhon	Construction material	1,400.24	1
Umnugobi	Plumbago, construction material, copper, zinc, coal	24,498.78	10
Sukhbaatar	Construction material, fluorspar, coal and uranium	11,670.07	4
Selenge	Gold and copper	909.89	2
Central	Gold, plumbago, copper and iron	16,208.68	14
Uvs	Gold and construction material	908.61	2
Ulaanbaatar	Construction material	478.64	7
Khovd	Gold, copper and construction material	3,600.19	4
Khentii	Gold, wolfram, tin	737	2
<b>Grand Total</b>		<b>155,795.69</b>	<b>93</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

## Mineral licences awarded through bidding process in 2016

According to MRPAM, mineral licences were awarded for 37 areas through bidding process in 2016. Refer to Appendix 18.b and 18.c for more details, including list of unsuccessful bidders.

### Area announcement procedure to award exploration licence and its legal framework

In accordance with the Government Resolution #37, dated 5 January 2017, new boundaries up for awarding exploration licences through tender process were created and the boundaries were further updated per the Government Resolution #234, dated 17 August 2017. The amendment increased the area size by 2 million hectares, making the total area size 10.6 hectares for awarding exploration licences through tender process.

The Mining and Heavy Industry Minister's Decree A/129 was issued on 29 June 2017. The decree included Tender Procedure to Award Licence (Appendix 1), members of the Selection Committee (Appendix 2), scoring sheet (Appendix 3), consolidated area up for exploration licences through tender process (Appendix 4), and total assessment of the tender process (Appendix 5). Implementation of the



decree was assigned to D.Ganbat, Head of Geology Policy Department of MMHI, and B.Baatartsogt, Head of MRPAM.

Head of MRPAM's Decree A/158 on the Registration and Publication of Coordinates of Areas up for Award of Exploration Licences through Tender Process was issued on 25 August 2017.

### Mineral licences transferred in 2016

As shown in the table below, the information regarding transferred exploration and production licences in 2016 has been summarised by each region, mineral type and total numbers. There were a total of 148 licence transfers in different aimags, including 52 production licences and 96 exploration licences. Please see Appendix 19 for full details.

Production licences transferred in 2016			Exploration licences transferred in 2016	
Aimags	Mineral Type	Total	Aimags	Total
Arkhangai	Gold	1	Bayankhongor	5
Bayan-Ulgii	Gold	1	Bulgan	8
Bayankhongor	Gold	1	Gobi-Altai	4
Bulgan	Gold	4	Darkhan-Uul	2
Bulgan, Central	Gold	2	Dornogobi	13
Gobisumber	Coal	3	Dornogobi, Umnogobi	2
Gobisumber, Dornogobi	Coal	2	Dornod	6
Darkhan-Uul	Gold	1	Dundgobi	9
Darkhan-Uul, Selenge	Gold	2	Zavkhan	5
Dornogobi	Fluorspar	1	Ovorkhangai	1
Dornogobi	Coal	2	Umnogobi	12
Dornod	Gold	2	Sukhbaatar	1
Dornod	Gold and copper	1	Central	9
Dundgobi	Gypsum	1	Uvs	8
Dundgobi	Coal	1	Ulaanbaatar	1
Ovorkhangai	Gold	1	Khovd	4
Ovorkhangai	Copper	1	Khentii	6
Umnogobi	Coal	1		
Selenge	Gold	4		
Central	Gola	7		
Central	Basalt	1		
Central	Construction material	1		
Central	Coal	1		
Central	Iron	1		
Central	Unknown	1		
Central, Ulaanbaatar	Construction material	1		
Ulaanbaatar	Construction material	4		
Ulaanbaatar	Unknown	1		
Khentii	Coal	2		
<b>Total</b>		<b>52</b>	<b>Total</b>	<b>96</b>
<b>Grand total</b>				<b>148</b>

Source: the Mineral Resources and Petroleum Authority of Mongolia

### 5.2.1.3 Mineral licence public register (REQ 2.3b)

The cadastre unit of MRPAM makes mineral licence information publicly available free of charge through its webpage<sup>3</sup>. In addition, special access to its webpage, where more detailed information is available, can be requested by entities who wish to obtain additional information. Special access allows the user to view issue date and expiration date of each licence which are required by the EITI Standard.

Comparison of available data from mineral licence public register	
Licence registry with public access	Licence registry special access
ID	ID
Registration number	Registration number
Licence holder	Licence holder
Licence type	Licence type
Status of licence	Status of licence
Area name	Area name
Area size	Area size
Area coordinates	Area coordinates
Area map	Aimag
	Issued date
	Expiration date
	Company type
	City
	Licence type
	Status (valid or expired)

Source: MRPAM Electronic Mining Cadastre System  
<https://cmcs.mram.gov.mn/cmcs#c=Map>

Similar to the cadastre unit of MRPAM, M.EITI also makes mineral licence information publicly available free of charge, including licence number, area name, area size, commodity produced, licence holder, licence issue dates and expiration dates on its webpage<sup>4</sup> and a map on which a selected licence is shown.

#### Licence application date:

Licence application date, required by the EITI Standard 2.3b, is not disclosed on cadastre unit of MRPAM or M. EITI webpages due to practical barriers faced by MRPAM. Until recently, the licence application process required physical applications and the licences were awarded based on first-come-first-serve. As such no electronic records exist and most of the earlier physical application forms are also not present in the archive.

MGS agreed to find the licence application dates of 213 companies selected for reconciliation as these companies make up 99% of the EI revenue in 2016. These 213 companies own 661 mineral licences and 11 PSAs. MRPAM commissioned internal work to find paper-based application dates of these licences and was able to find 206 mineral licences, 8 PSAs and informed us that it will not be possible to find further application dates. MRPAM explained that the registration in the Cadastre Department changed to electronic system starting 2010. The registration of licences prior to 2010 was not

<sup>3</sup> <https://cmcs.mram.gov.mn/cmcs#c=Licence>

<sup>4</sup> <https://e-reporting.eitimongolia.mn/portalMap>

retrospectively recorded in the electronic system and these paper documents were not archived. Therefore MRPAM would not be able to provide application dates of remaining licences.

In addition, KPMG requested 40 companies which owned 261 licences and comprised 95% of total EI revenues in 2016 to provide their licence application dates. We received 66 application dates. Most of them informed us that they are unable to provide the application dates for the following reasons:

- The licence was bought from another company and no application information was included (including companies with the most number of licences such as Mongoliin Alt MAK (20) and Altandornod Mongol (48))
- The licence was issued a long time ago and as such no information in the archive was found
- Erdenes Mongol and Erdenes Tavan Tolgoi informed KPMG that the licences were directly given to them from the GOM.

*Together with application dates identified by MRPAM and provided by companies, application dates of 251 mineral licences of 109 companies and 8 PSAs of 7 companies were found and these 116 companies account for 84.5% of the EI revenues (98.8% if the revenues for petroleum licence holders are excluded) in 2016.*

In addition, MRPAM provided application dates of all exploration licences awarded in 2016. Please see Appendix 20 and 22.a for application dates of existing and awarded licences identified so far.

#### 5.2.1.4 Mineral licensing transparency aspects (REQ 2.3c)

In accordance with the legal framework, MRPAM makes the licensing processes available to the public through their webpage (<https://cmcs.mram.gov.mn/cmcs#c=Map>) free of charge. Information provided includes:

MRPAM licence transparency						
List of valid licences	Reserved areas	Strategic deposit area	Area available for new exploration licences	Artisanal or small scale mining area	Special state area	Special regional area
ID	ID	ID	ID	ID	ID	ID
Licence number	Code	Code	Code	Code	Code	Code
Area name	Area name	Area name	Area name	Area name	Area name	Area name
Licence type						
Holder/ applicant						
Area (ha)	Area (ha)	Area (ha)	Area (ha)	Area (ha)	Area (ha)	Area (ha)
Coordinates	Coordinates	Coordinates	Coordinates	Coordinates	Coordinates	Coordinates
Map	Map	Map	Map	Map	Map	Map
	Aimag	Aimag	Aimag	Aimag	Aimag	Aimag
	Status	Status	Status	Status	Status	Status
	Enacted by	Enacted by	Enacted by	Enacted by	Enacted by	Enacted by
	Implementation date	Implementation date	Implementation date	Implementation date	Implementation date	Implementation date
	Decision date	Decision date	Decision date	Decision date	Decision date	Decision date
	Reception date	Reception date	Reception date	Reception date	Reception date	Reception date
	Expiry date	Expiry date		Expiry date		
	Registration date	Registration date	Registration date	Registration date	Registration date	Registration date

Source: the Mineral Resources and Petroleum Authority of Mongolia

## 5.2.2 Petroleum licensing

The Petroleum Law (<http://www.legalinfo.mn/law/details/10484>) governs petroleum search, exploration and production processes in Mongolia. Petroleum search operations include geological, geochemical and geophysical activities undertaken to determine the state of conventional and unconventional petroleum in the region, whereas petroleum exploration operations include geological, geochemical, geophysical, drilling and production testing activities undertaken to determine conventional and unconventional petroleum reserves. Petroleum production includes the development and actual production of conventional and unconventional petroleum resources. According to the Petroleum Law, MMHI issues both exploration and production licences, whereas search licences are granted by MRPAM.

### 5.2.2.1 Petroleum licence awarding process (REQ 2.2)

There are three types of petroleum licences:

- Search licence;
- Exploration licence – requires PSA; and
- Production licence – requires PSA.

#### Petroleum search licence awarding process

Search licence awarding process		
Steps	Authority	Action
Step 1	MRPAM	Submit application to MRPAM <ul style="list-style-type: none"> <li>- Area location and size;</li> <li>- Work plan during search period;</li> <li>- Technical and human resource capacity;</li> <li>- Work funding capacity and source; and</li> <li>- Annual work plan.</li> </ul>
Step 2	MRPAM	MRPAM responds to the request within 30 business days. If two or more entities apply for the same location, MRPAM compares proposals based on the following criteria: <ul style="list-style-type: none"> <li>- Technical, human resources and financial capacity;</li> <li>- Whether search methodology meets international standards; and</li> <li>- Rehabilitation plan.</li> </ul>
Step 3	MRPAM	Petroleum search contract is signed with MRPAM for up to 3 years

Source: Petroleum Law

#### PSA signing process

A PSA must be signed prior to petroleum exploration and production licence applications. The following table shows the PSA signing process

PSA signing process		
Steps	Authority	Action
Step 1	MRPAM	Submit an application to negotiate PSA to MRPAM with following terms specified: <ul style="list-style-type: none"> <li>- Government's share of net extracted petroleum;</li> <li>- Royalty;</li> <li>- Ceiling percentage of recoverable cost of petroleum extraction;</li> <li>- Amount of investment in exploration;</li> <li>- Amount to be used for environmental rehabilitation;</li> <li>- Training bonus amount;</li> </ul>

PSA signing process		
Steps	Authority	Action
		<ul style="list-style-type: none"> <li>- Signing bonus amount;</li> <li>- Commencement of production bonus amount;</li> <li>- Production increase bonus amount;</li> <li>- Local development bonus amount;</li> <li>- Support for representative office; and</li> <li>- Other terms beneficial to the GoM.</li> </ul>
Step 2	MRPAM	Upon receipt of the aforementioned PSA terms, MRPAM negotiates with the applicant, agrees upon the terms within 60 days and sends draft PSA to MMHI
Step 3	MMHI	Examine the draft within 30 days and delivers it to GoM
Step 4	GoM	Approval or denial decision within 60 days of its receipt
Step 5	MRPAM	If GoM grants the right, MRPAM signs PSA with the applicant within 30 days
Step 6	MRPAM	MRPAM notifies regional governor's office

Source: Petroleum Law

## Petroleum exploration licence awarding process

Exploration licence awarding process		
Steps	Authority	Action
Step 1	MMHI	Submit application to MMHI <ul style="list-style-type: none"> <li>- Copy of PSA;</li> <li>- Environmental impact assessment;</li> <li>- Work plan; and</li> <li>- Evidence of deposit in an escrow account equal to the 3% of investment in exploration work for environmental rehabilitation.</li> </ul>
Step 2	MMHI	Issue exploration licence <ul style="list-style-type: none"> <li>- Conventional exploration licence for up to 8 years. Exploration licence can be extended twice for up to 2 years each</li> <li>- Unconventional exploration licence is issued for up to 10 years and can be extended once by up to 5 years</li> <li>- Exploration period starts at the signing of the PSA</li> <li>- MRPAM notifies regional governor's office about issuance or extension of exploration licences.</li> </ul>

Source: the Petroleum Law

Note: Conventional petroleum operations, including exploration and production, relate to crude oil, while unconventional petroleum operations relate to natural bitumen, peat, oily sand, gas sand, gas shale and coal methane

## Petroleum production licence awarding process

According to the Petroleum Law, an exploration licence holder applying for a production licence is considered before other applicants applying for a production licence in the same area.

Production licence awarding process		
Steps	Authority	Action
Step 1	MMHI	Submit application to MMHI: <ul style="list-style-type: none"> <li>- MMHI's statement on petroleum reserve;</li> <li>- Annual work plan and budget;</li> <li>- Operations plan; and</li> <li>- Topography showing coordinates and boundaries.</li> </ul>
Step 2	MMHI	Approval of work plan
Step 3	MMHI	Evidence of deposit in an escrow account for 1% of the licence holders' profit within 60 days from approval of annual work plan
Step 4	MMHI	Issue production licence

Production licence awarding process		
Steps	Authority	Action
Step 5	MRPAM	<ul style="list-style-type: none"> <li>- Conventional production licence for up to 25 years. Exploration licence can be extended twice for up to 5 years each</li> <li>- Unconventional exploration licence is issued for up to 30 years and can be extended once by up to 5 years</li> </ul>
		MRPAM notifies regional governor's office about issuance or extension of production licences.

Source: Petroleum Law

### Petroleum licence bidding process

When an exploration or production licence is returned to MMHI, it reissues the licence via a public bid. An exploration or production licence can be returned when one of the following events take place:

- Exploration work is performed by state funding;
- Entity that performed search work, did not apply for an exploration licence;
- Entity that performed exploration work, did not apply for production licence;
- Entity that was doing exploration or production work decided not to continue operations;
- Entity refused to sign PSA;
- Licence retracted due to noncompliance with law or by court decision;
- Licence period expired; and
- Entity and MRPAM did not come to agreements on the terms of PSA.

Exploration and production licence bidding process - reissuance		
Steps	Authority	Action
Step 1	MRPAM	MRPAM announces bid invitation to the public at least 3 times via their webpage and daily newspapers
Step 2	MRPAM	MRPAM receives bid offers for 60 days. Bid closing date shall be announced 5 days after the first licence applicant submits its bid. Bidders must submit: <ul style="list-style-type: none"> <li>- Copy of state registration certificate;</li> <li>- Bidder and its financier's official description;</li> <li>- Power of attorney document of bidder's representative, including contact information and address;</li> <li>- Evidence showing applicant's technical and professional capabilities;</li> <li>- Evidence of required funding;</li> <li>- Exploration work plan and budget;</li> <li>- Payment of application fee of USD 20,000 to MRPAM's bank account; and</li> <li>- If the applicant has a business partner, description of the partner's involvement and responsibilities.</li> </ul>
Step 3	MRPAM	MRPAM notifies the applicant with notice of receipt within 5 business days from receiving the application
Step 4	MMHI and MRPAM	MMHI and MRPAM keep applicant's documents confidential until contract is signed
Step 5	MRPAM	MRPAM grades applicants based on the following criteria and chooses the one that is most beneficial to GoM <ul style="list-style-type: none"> <li>- Government's share of net extracted petroleum;</li> <li>- Royalty rates;</li> <li>- Ceiling percentage of gross extracted petroleum;</li> <li>- Investment amount;</li> <li>- Amount to be used for environmental rehabilitation;</li> <li>- Training bonus amount;</li> </ul>

Exploration and production licence bidding process - reissuance		
Steps	Authority	Action
		<ul style="list-style-type: none"> <li>- Signing bonus amount;</li> <li>- Commencement of production bonus amount;</li> <li>- Production increase bonus amount;</li> <li>- Local development bonus amount;</li> <li>- Support for representative office; and</li> <li>- Other terms beneficial to GoM.</li> </ul>
Step 6	MRPAM	MRPAM notifies the result to applicants
Step 7	MRPAM	MRPAM negotiates and agrees upon PSA with the applicant within 60 days and sends draft PSA to the MMHI
Step 8	MMHI	MMHI examines the draft within 30 days and delivers it to GoM
Step 9	GoM	GoM makes approval or denial decision within 60 days from receipt
Step 10	MRPAM	If GoM grants the right, MRPAM signs PSA with the applicant within 30 days

Source: Petroleum Law

### 5.2.2.2 Petroleum licence awards and transfers in 2016

In 2016, PSA for Dariganga XXIV area was transferred from Apexpro Investment LLC to Mongolia Shin Iyi LLC per GoM Decree #41 of 11 January 2016. The new PSA with Mongolia Shin Iyi LLC was signed on 18 April 2016 and the licence was awarded on 4 July 2016.

In addition, two new PSAs were signed for new areas in 2016 and licences of these two PSAs were awarded in 2017:

- PSA for Arbulag XXIX area with Max Oil LLC, signed on 6 July 2016 per GoM Decree #337 of 20 June 2016
- PSA for Ergel XII area with Smart Oil Investment Limited LLC, signed on 9 September 2016 per GoM Decree #53 of 24 August 2016.

In addition, these two PSAs were awarded through bidding process. The unsuccessful bidders were Tuvshin International LLC and CCF Petroleum LLC for Arbulag XXIX and Quanan Yuanxing Industry & Trade for Ergel XII.

### Check of non-trivial deviations from applicable laws and regulations

The IA checked non-trivial deviations applicable laws and regulations for 2 PSAs awarded and 1 PSA transferred in 2016.

- For award of PSA (Arbulag XXIX) to Max Oil LLC:
  - The last step in the PSA signing process is MRPAM to notify local government about the signing of the PSA. We did not find any evidence of notifying the local government.
  - The last step in awarding the exploration licence is MRPAM to notify local government about the issuance of exploration licence. We did not find any evidence of notifying the local government.
- For award of PSA (Ergel XII area) to Smart Oil Investment Limited LLC:
  - The last step in the PSA signing process is MMHI to notify local government about the signing of the PSA. We did not find any evidence of notifying the local government.

- In the awarding of exploration licence, we found no evidence of deposit in an escrow account equal to the 3% of investment in exploration work for environmental rehabilitation. We were informed that it will be deposited when the escrow account is identified.
  - The last step in awarding the exploration licence is MRPAM to notify local government about the awarding of the PSA. We did not find any evidence of notifying the local government.
  - We were not able to check all required documents in Step 2 and 3 of the bidding process from MRPAM. These documents were supposed to be archived in MRPAM. We were notified by officer responsible for archiving that the documents were not archived as the request to archive came prior to archive eligibility date and now the person who was handling these documents left MRPAM and MRPAM is unable to locate these documents.
  - We were also not able to check bidding criteria used (Step 5 of the bidding process) due to missing documents for the same reason as stated above (d).
- For transfer of PSA (Dariganga XXIV) from Apexpro Investment LLC to Mongolia Shin Iyi LLC:
- Step 5 of the transfer process requires the contractor to pay the fees specified in clause 34.7 and 34.8 of the relevant law within 90 days of the issuance of a Cabinet decision approving the transfer of a third or more percentage of the rights and obligations. We were not able to find the payment receipt.
  - Step 6 of the transfer process requires the contractor and the third party receiving the contractual rights and obligations to honestly report the amount of payments paid for transferring those rights and obligations. We were not able to find relevant evidence.

Please see Appendix 21.c and 21.d for more information.



### 5.2.2.3 Petroleum licensing transparency aspects and public register (REQ 2.3b, c)

After MRAM merged with PAM, MRPAM no longer makes all petroleum licence information publicly available as mandated by the EITI Standard section 2.3b. However, the MMHI webpage (<http://www.mmhi.gov.mn/public/more/id/121>) discloses all 25 active PSAs, including information on:

- Licenced area names and area codes
- Date of award
- Duration of the licence
- Licence holder

The M.EITI webpage also discloses information on PSAs including licenced area names, area codes, area coordinates, licence holders (<http://www.eitimongolia.mn/mn/node/4922>) and award and expiration dates (<https://e-reporting.eitimongolia.mn/portalMap>).

The following tables show the valid petroleum licences for which information is publicly available on the MMHI webpage.

Petroleum production licences			
	Area name	Holder company	Parent company
XIX	Toson-Uul	Petrochina Daqing Tamsag LLC	Petro China Company Limited
XXI	Tamsag	Petrochina Daqing Tamsag LLC	Petro China Company Limited
97	Zuunbayan	Dong Sheng Oil Mongolia LLC	Sinopec Limited

Source: the Ministry of Mining and Heavy Industry

Petroleum exploration licences		
Area code	Area name	Holding company
XX	Matad	Petromatad Invest Limited
IV	Bogd	Capcorp Mongolia LLC
V	Ongi	Capcorp Mongolia LLC
XIII	Tsagaan Els	Gobi Energy Partners LLC
XIV	Zuunbayan	Gobi Energy Partners LLC
XVI	Nyalga	Sheiman LLC
XI	Galba	Zong Heng You Tian LLC
XXIV	Dariganga	Apexpro Investment
XXIII	Sulinheer	Shunkhlai Energy LLC
VII	Borzon	Empire Gas Mongolia
XVIII	Kukhnuur	NPI LLC
X	Tukhum (North)	Sansar Geology Exploration
XXVI	Tsaidam	Sansar Geology Exploration
XVII	Bayantumen	Magnai Trade LLC
X	Tukhum (South)	Mongolyn Alt Company LLC
XXVII	Sukhbaatar	Wolf Petroleum LLC
IX	Nomgon	Sansar Geology Exploration
I	Uvs	Mongolia Gladwell Uvs Petroleum LLC
XXVIII	Kherlen-Tokhoi	Hong Kong Welpack Industrial LLC
II	Khar-Us	Renova Ilch LLC
XXIX	Arbulag	Max Oil LLC
XII	Ergel	Smart Oil Investment LLC

Source: the Ministry of Mining and Heavy Industry

Please see Appendix 21 for licensing information of 25 areas with PSAs, including coordinates of each area.

## 5.3 Distribution of revenue

### 5.3.1 State financial system (REQ 5.1)

The Parliament of Mongolia and the GoM are the main entities that oversee the management of the state financial system. GoM prepares the projection of revenues and expenditures in the annual budget proposal and presents it to Parliament.

The annual budget proposal consists of the following:

- State budget, outlining the revenue and expenditure of GoM;
- Local budget, broken down into city, district, aimag, and soum budgets;
- The Future Heritage Fund budget, which replaced the Human Development Fund budget starting 1 January 2017, generated and was spent in accordance with the Future Heritage Fund Law of Mongolia. The balance of the Human Development Fund budget was transferred to the Future Heritage Fund. The purpose of the Future Heritage Fund is to collect a part of the mineral's revenues and put these into the fund for future generations;
- Social Insurance Fund budget, generated and spent in accordance with the Social Insurance Law of Mongolia. The main purpose of this fund is to finance social benefits that are available to citizens; and
- Health Insurance Fund budget, generated in accordance with the Social Insurance Law and the Health Insurance Law of Mongolia and spent in accordance with the Health Insurance Law.

Parliament authorises all the above sub-parts of the annual budget proposal except for the local budget that requires final authorisation from the Citizens' Representative Council.

According to the Budget Law, the national budget revenue consists of tax and non-tax revenues.

- Tax revenues include:
  - Taxes and fees set by the General Tax Law of Mongolia
- Non-tax revenues include:
  - Dividends paid by state owned legal entities, legal entities owned by local government and entities with state and local government participation;
  - Royalties for the use of properties owned by state and local government;
  - Privatisation, sales, and rental income from properties owned by state and local government;
  - Penalties;
  - Side operational revenue of budgetary entities;
  - Loans and aid to the government; and
  - Other income collected in the budget in accordance with laws and regulation.

### 5.3.2 Legislation related to national budget (REQ 5.1)

The main legislation applicable to the national budget system consists of the Constitution of Mongolia, the Fiscal Stability Law, the Budget Law, and other legislative acts enacted in accordance with the Budget Law. According to the Constitution of Mongolia, the Parliament has the superior right to authorise the annual budget plan as a whole and its performance report. In general, the Budget Law regulates the national budget. As stated in the Budget Law, the purpose of the Law is to establish principles, systems, composition and classification of the budget; to implement special fiscal principles;

to define authorities, roles and responsibilities of bodies that participate in the budget process; and to regulate matters that arise in connection with budget preparation, budget approval, spending, accounting, reporting and auditing.

Another important law with regard to the revenue contribution of mineral resources to the national budget is the Fiscal Stability Law of Mongolia. As stated in the Fiscal Stability Law, the purpose of the law is to determine and implement budget requirements and management principles to ensure fiscal stability; determine the rights and responsibilities of government organisations in monitoring fiscal stability; create renewable wealth; make investments that support economic development; and generate financial savings from mineral revenues. The law establishes principles of fiscal requirements and special fiscal requirements for ensuring fiscal stability; determines rights, duties and responsibilities of state bodies regarding implementation and monitoring of these principles and requirements; and regulates the matters that may arise out of or in connection with its purpose.

The Fiscal Stability Law provides that the consolidated budget revenue shall be estimated by using a structural revenue policy. Structural revenue is based on the revenues that would be received if the prices of major minerals were at a particular level, defined as a 24-year moving average of mineral prices. In this law, a major mineral is described as one generating at least three percent of the national budget revenue, whereas the 24-year moving average of mineral prices comprises actual prices over the past 20 years and projected prices for the current year and the next three years. When the revenue generated from the market price of a major mineral is more than the structural revenue calculated, the Fiscal Stability Fund accumulates the difference.

### 5.3.3 EI revenue distribution in the national budget (REQ 5.1)

The allocation of revenues generated from EI in accordance with the related Mongolian laws, including the Budget Law, the Human Development Fund Law, and the Government Special Fund Law, can be summarised as follows:

Allocation of revenue generated from Extractive Industries as of end of 2016					
	State budget	General local dev. fund	Fund for city and aimag	Fund for district and soum	Human dev. fund
Mineral resources royalties	30%	5%	NA	NA	65%
Mineral resources exploration and production licence fees	50%	50%	NA	NA	NA
Oil exploration and production licence fees*	70%	NA	20%	10%	NA
Oil resources royalties*	70%	30%	NA	NA	NA

Source: the Ministry of Finance, the Budget Law

\*Note: Added to the Budget Law in accordance with its Amendment of 1 July 2014.

In May 2015, Parliament passed an amendment to Article 60 of the Budget Law and the Human Development Fund Law, with the purpose of increasing local participation and benefits from the Extractive Industry. The amendment became effective starting from 1 January 2016. The amendment requires that 65% and 5% of the revenue from mineral resource royalties shall go to the Human Development Fund and General Local Development Fund respectively. In addition, 50% of the revenue from mineral resource exploration and production licence fees shall be transferred to the Local Development Fund.

Per the information provided by MoF to M.EITI Secretariat, other taxes and fees from legal entities operating in the Extractive Industries are allocated to the appropriate funds as instructed by the annual budget policy of the corresponding year and the General Tax Law of Mongolia.

#### 5.3.4 Sub-national transfers (REQ 5.2) and revenues for specific programmes (REQ 5.3a)

##### The General Local Development Fund

According to Article 4.1 of the Budget Law, the state budget reallocates funds to local budgets in order to support local development and to aim for equality of regions in Mongolia, thus leading to the General Local Development Fund (GLDF) at national level. Each aimag and soum has its corresponding development funds, commonly referred to as the Local Development Fund (LDF) at aimag level. The main revenue source of these LDFs is from the transfers allocated from the GLDF at the national level and revenues from state budget.

The funds at the national level first are transferred from the GLDF to the LDFs at the aimag level and each aimag transfers the fund to their constituting soums.

As stated in Article 59.1 of the Budget Law, the GLDF at the national level has the following revenue sources which are further transferred to LDF of 21 aimags.

- 10% of total VAT of goods and services except that of imported goods and services;
- 5% of the received mineral resource royalties;
- 30% of the oil resource royalties;
- Grants and donations rendered by domestic non-governmental organisations and official foreign aid to support local development;
- Transfers from lower-level funds to upper-level funds.

In addition to these revenue sources, the following revenues are transferred to the LDFs of the 21 aimags from the State Budget.

- 30% of mega project revenue
- 50% of mineral resource exploration and production licence revenue

The following table shows the contributions to the GLDF at national level that were planned and actually allocated from each revenue source and actual transfers from the GLDF at national level to LDF at aimag level in 2016.

Planned and allocated contributions to GLDF and actual transfers to LDF			
MNT m	Planned revenue	Collected revenue	Actual transfer to Local Development Fund
<b>GLDF</b>			
VAT except import revenue	41,800.0	45,887.8	46,624.0
Mineral resource royalties	12,769.6	14,435.7	14,435.7
Oil resource royalties	4,944.9	6,230.3	6,230.3
Grants, donations	-	-	-
Base budget profit allocation	16,141.6	16,141.6	16,141.6
<b>Subtotal (GLDF)</b>	<b>75,656.1</b>	<b>82,695.4</b>	<b>83,431.6</b>
<b>State Budget</b>			
Mega project revenue	29,005.8	28,597.1	24,714.7
Mineral resource exploration and production licence revenue	15,605.8	17,404.8	12,121.4
<b>Subtotal (State Budget)</b>	<b>44,611.6</b>	<b>46,001.9</b>	<b>36,836.1</b>
<b>Total (GLDF and State Budget)</b>	<b>120,267.7</b>	<b>128,697.3</b>	<b>120,267.7</b>

Source: the Ministry of Finance and the National Audit Office

As requested in KPMG's additional information template, the MoF has disclosed the planned and actual transfers from each revenue sources made to all aimags' LDFs in 2016 in accordance with the General Local Development Fund Law. MSG decided not to have any materiality threshold for disclosure, therefore, all revenue allocations are disclosed below. Please refer Appendix 23.b for information regarding planned and actual transfers at soum level.

Planned and actual transfers to the Local Development Fund at aimag level														
Aimags	VAT 10%		Mineral resource royalty 5%		Oil resource Royalty 30%		Transfer from lower to upper level funds		Mega Project Revenue 30%		Exploration and production licences revenue 50%		Total allocation	
	Planned	Transferred	Planned	Transferred	Planned	Transferred	Planned	Transferred	Planned	Transferred	Planned	Transferred	Planned	Transferred
MNT m														
Arkhangai	1,762	1,878	343	422	208	222	680	605	6	6	180	47	3,180	3,180
Bayan-Ulgii	1,481	1,656	356	466	175	235	572	606	347	101	330	197	3,260	3,260
Bayankhongor	2,065	2,358	312	430	244	224	797	719	545	233	774	774	4,738	4,738
Bulgan	1,563	1,627	225	338	185	217	604	646	468	468	506	254	3,550	3,550
Gobi-Altai	2,209	3,486	217	661	261	353	853	720	958	14	1,195	461	5,694	5,694
Dornogobi	1,826	1,886	241	376	216	250	705	756	638	438	1,953	1,874	5,580	5,580
Dornod	1,877	1,940	280	396	222	259	725	776	286	275	751	495	4,141	4,141
Dundgobi	1,721	1,881	166	310	204	234	665	610	442	442	917	637	4,115	4,115
Zavkhan	1,799	2,120	267	490	213	304	695	730	1,045	375	166	166	4,186	4,186
Uvurkhangai	1,843	1,780	417	505	218	259	712	765	48	48	207	88	3,444	3,444
Umnugobi	2,052	2,507	706	1,160	243	390	792	828	13,003	13,003	4,720	3,627	21,515	21,515
Sukhbaatar	1,723	1,848	243	390	204	251	665	709	3,404	3,404	1,443	1,080	7,681	7,681
Selenge	1,492	1,706	457	610	176	219	576	615	1,829	1,395	358	343	4,887	4,887
Tuv	1,563	1,873	365	470	185	239	604	639	2,616	2,110	968	968	6,301	6,301
Uvs	1,674	1,657	280	336	198	227	647	515	47	12	195	294	3,041	3,041
Khovd	1,838	1,707	302	374	217	249	710	764	266	266	331	303	3,664	3,664
Khuvsgul	1,873	1,789	465	542	222	264	723	756	10	5	103	39	3,396	3,396
Khentii	1,770	2,237	277	487	209	229	683	602	1,159	544	318	318	4,417	4,417
Darkhan-Uul	1,326	1,654	380	532	157	250	512	532	842	248	79	78	3,295	3,295
Ulaanbaatar	5,621	6,558	5,164	4,099	665	1,012	2,171	2,157	729	526	43	43	14,394	14,394
Orkhon	1,515	1,354	1,247	867	179	181	585	601	-	558	36	1	3,562	3,562
Gobi-sumber	1,207	1,122	60	176	143	162	466	488	317	244	35	35	2,227	2,227
<b>Total</b>	<b>41,800</b>	<b>46,624</b>	<b>12,770</b>	<b>14,437</b>	<b>4,944</b>	<b>6,230</b>	<b>16,142</b>	<b>16,139</b>	<b>29,005</b>	<b>24,715</b>	<b>15,608</b>	<b>12,122</b>	<b>120,268</b>	<b>120,268</b>

Source: the Ministry of Finance

The actual revenue collected from each source was 13.3% higher for mineral resources royalties, 25.0% higher for oil resources royalties and 11.5% higher for VAT revenue compared to their planned contributions. However, the actual revenue collected was 15% lower for mega projects and 23% lower for exploration licence revenues compared to their planned amounts.

According to Article 59 of the Budget Law, the following indicators should be considered in defining transfers from the GLDF to local budgets in the fiscal year:

- Local development index;
- Population;
- Population density, remoteness and size of territory; and
- Local tax initiative.

When allocating the mineral resource royalties from the GLDF to local budgets, the amount to be allocated per capita shall be up to 10% higher in areas where mining operations are occurring compared to amounts allocated to non-mining areas. The capital city and aimags must reallocate no less than 60% of transfers allocated from the GLDF to district and soum development funds, taking into consideration the above indicators.

The total fund, excluding the mineral resource royalties (VAT, oil resource resources, grants and donations, and transfers from lower to upper level funds) in the GLDF at national level, is evenly distributed among the above indicators and these allocations are used for a detailed revenue sharing formula at aimag level.

Weighted monetary allocation for each indicators		
MNT m	Percentage	TF*25%
Local Development Index	25%	15,721.6
Population	25%	15,721.6
Population density, remoteness and size of territory	25%	15,721.6
Local Tax Initiative	25%	15,721.6
<b>Total Fund (TF) in the GLDF, excluding mineral resources royalties</b>	<b>100%</b>	<b>62,886.5</b>

Source: the Ministry of Finance

The revenue sharing formula use certain parameters, sourced from related government agencies in accordance with the 2012 Government Order #30:

Ministry of Finance provides the following parameters:

- Local Development Index for all 21 aimags
- National Average Development Index
- Remoteness index
- Tax Revenue Plan Performance Index

National Statistics Office provides the following parameters:

- Population of each 21 aimag
- Population Density Index of each 21 aimag
- Territory size of each 21 aimag

Mongolian Tax Authority provides the following parameters:

- Tax Coverage Index
- Tax Settlement Index

Respective Citizen's Representative Council at aimag level provides the following parameter:

- Tax Rate Index

The following table shows the revenue sharing formula for planned sub-national transfers at aimag level and respective calculations based on each indicator.

Planned allocation based on each indicator																				
	1. Local Development Index			2. Population		3. Population Density, Remoteness and Territory Size								4. Local Tax Initiative Index						Total Planned Allocation Based on 4 Indicators
Aimags	Local Dev. Index	Comp. Index	Alloca’n MNT m	Pop. /k/	Alloca’t’n MNT m	Pop. Density Index	Pop. Den- sity Index Rec.	Based on the Density	Rem. Index	Based on the Rem.	Terr. Size	Based on the Terr. Size	Alloca’t’n MNT m	Tax Rev. Plan Perf. Index	Tax Cov. Index	Tax Sett. Index	Tax Rate Index	Local Tax Init. Index	Alloca’t’n MNT m	
	A	B	I	D	II	F	G	H	I	J	K	L	III	N	O	P	Q	R	IV	
		National Avg. Dev. Index¹ /A	B/B <sup>total</sup> * wma²		D/D <sup>total</sup> * wma²		1/F	G/G <sup>total</sup> * 33%* wma²		I/I <sup>total</sup> * 33%* wma²		K/K <sup>total</sup> * 34%* wma²	H+J+L					(N+O+P +Q) /4	R/R <sup>total</sup> * wma²	
Arkhangai	0.23685	0.92214	649.7	93.1	488.6	1.68	0.59	139.2	0.7465	424.6	55.3	189.0	752.8	0.0489	0.0531	0.0544	0.0421	0.0496	780.2	2,671.2
Bayan-Ulgii	0.19852	1.10019	775.1	95.2	499.6	2.08	0.48	112.5	0.1674	95.2	45.7	156.2	364.0	0.0481	0.0251	0.0382	0.0403	0.0379	596.2	2,234.9
Bayankhongor	0.21890	0.99775	702.9	83.0	435.6	0.72	1.40	327.6	1.0000	568.7	116	396.4	1,292.8	0.0488	0.0436	0.0441	0.0423	0.0447	702.7	3,134.0
Bulgan	0.23222	0.94053	662.6	60.5	317.5	1.24	0.80	188.7	0.5258	299.1	48.7	166.4	654.2	0.0435	0.0490	0.0492	0.0445	0.0466	731.9	2,366.2
Gobi-Altai	0.18015	1.21236	854.1	56.7	297.5	0.40	2.49	584.6	0.5712	324.9	141.4	483.2	1,392.7	0.0480	0.0433	0.0481	0.0445	0.0460	723.0	3,267.4
Dornogobi	0.17842	1.22416	862.4	63.8	334.8	0.58	1.72	402.3	0.0782	44.5	109.5	374.2	821.1	0.0407	0.0521	0.0514	0.0421	0.0465	731.7	2,750.0
Dornod	0.23256	0.93919	661.7	75.2	394.6	0.61	1.64	385.3	0.3787	215.4	123.6	422.4	1,023.1	0.0444	0.0538	0.0536	0.0401	0.0480	754.3	2,833.7
Dundgobi	0.19957	1.09444	771.1	44.4	233.0	0.59	1.68	394.4	0.4304	244.8	74.7	255.3	894.5	0.0431	0.0440	0.0483	0.0434	0.0447	702.4	2,600.9
Zavkhan	0.19937	1.09550	771.8	69.7	365.8	0.84	1.18	277.5	0.5634	320.4	82.5	281.9	879.8	0.0429	0.0375	0.0445	0.0398	0.0412	647.6	2,665.0
Uvurkhangai	0.22021	0.99186	698.8	113.0	593.0	1.80	0.56	130.5	0.6729	382.7	62.9	215.0	728.2	0.0452	0.0490	0.0525	0.0493	0.0490	770.2	2,790.2
Umnugobi	0.27279	0.80065	564.1	59.7	313.3	0.36	2.77	649.5	0.5211	296.4	165.4	565.3	1,511.1	0.0406	0.0422	0.0487	0.0498	0.0453	712.3	3,100.7
Sukhbaatar	0.23494	0.92964	655.0	57.4	301.2	0.70	1.43	336.1	0.4491	255.4	82.3	281.3	872.8	0.0494	0.0503	0.0477	0.0498	0.0493	775.1	2,604.1
Selenge	0.21241	1.02827	724.4	106.2	557.3	2.58	0.39	90.9	0.0376	21.4	41.2	140.8	253.1	0.0434	0.0512	0.0400	0.0462	0.0452	710.6	2,245.4
Tuv	0.22308	0.97910	689.8	90.1	472.8	1.22	0.82	192.5	0.0673	38.3	74	252.9	483.7	0.0531	0.0442	0.0350	0.0476	0.0450	707.1	2,353.4
Uvs	0.18045	1.21039	852.7	75.8	397.8	1.09	0.92	215.3	0.1815	103.2	69.6	237.9	556.4	0.0501	0.0451	0.0445	0.0433	0.0458	719.5	2,526.4
Khovd	0.19331	1.12986	796.0	81.5	427.7	1.07	0.93	218.9	0.6416	364.9	76.1	260.1	843.9	0.0463	0.0417	0.0400	0.0454	0.0434	682.1	2,749.7
Khuvsgul	0.23301	0.93737	660.4	126.0	661.2	1.25	0.80	187.2	0.4397	250.1	100.6	343.8	781.1	0.0437	0.0418	0.0465	0.0521	0.0460	723.2	2,825.9
Khentii	0.20505	1.06515	750.4	71.2	373.6	0.89	1.13	264.4	0.5290	300.8	80.3	274.4	839.7	0.0431	0.0566	0.0366	0.0452	0.0454	713.3	2,677.1
Darkhan-Uul	0.27086	0.80636	568.1	99.9	524.2	30.27	0.03	7.7	0.1878	106.8	3.3	11.3	125.8	0.0444	0.0422	0.0431	0.0469	0.0441	694.0	1,912.2
Ulaanbaatar	0.25926	0.84245	593.5	1,363	7,152.6	290.00	0.00	0.8	0.0000	0.0	4.7	16.1	16.9	0.0424	0.0456	0.0382	0.0504	0.0442	694.2	8,457.2
Orkhon	0.20295	1.07619	758.2	94.4	495.4	118.00	0.01	2.0	0.5837	332.0	0.8	2.7	336.7	0.0497	0.0396	0.0404	0.0499	0.0449	705.7	2,296.0
Gobisumber	0.22020	0.99188	698.8	16.1	84.5	2.93	0.34	80.1	0.3490	198.5	5.5	18.8	297.4	0.0401	0.0491	0.0552	0.0449	0.0473	744.2	1,824.9
Total	4.80508	22.3155	15,721.6	2,995.9	15,721.6	460.9	22.11	5,188	9.1219	5,188	1564	5,345	15,721.8	1.0	1.0	1.0	1.0	1.00	15,721.5	62,886.5

Note: <sup>1</sup>National Average Index used was 0.21841

<sup>2</sup>wma - a weighted monetary allocation for each indicator (Local Development Index; Population; Population density, remoteness and size of territory; Local Tax Initiative) - MNT 15,721.6 m

Source: the Ministry of Finance

The following table shows the revenue sharing formula for planned sub-national transfers from the mineral resource royalties as well as the total planned and actual transfers to the LDF at aimag level. According to the MoF, the same revenue sharing formula to calculate planned allocation was used for actual transfers from the GLDF at national level to LDFs at aimag level.

Planned allocation from the mineral resource royalties							Planned and actual transfers to the Local Development Fund at aimag level					
Aimags	Pop. /k/	Per Capita	Mineral Res. Royalties	Weighted Per Capita	Allocat'n Based on Pop.	Deducted Percentage	I. Planned Allocat'n from Mineral Resources Royalties	II. Total Planned Allocat'n Based on 4 Indicators (previous table)	III. Total Planned Allocat'n from GLDF I+II.	IV. Total Planned Allocat'n from State Budget (mega project and exp. licence)	Total Planned Allocat'n from GLDF and State Budget to LDF at aimag level III+ IV.	Actual Transfer from GLDF and State Budget to LDF at aimag level
MNT m	A	B	C	D	E	F	E*(1-F)					
		mrr <sup>1</sup> /A <sub>total</sub>		B*(1+C/C <sub>uv</sub> *10%)	D*A	1-(mrr <sup>1</sup> /E <sub>total</sub> )						
Arkhangai	93.1	4.2	0	4.2	396.8	13.52%	343.2	2,671.2	3,014.4	186.1	3,179.9	3,179.9
Bayan-Ulgii	95.2	4.2	0.9	4.3	411.2	13.52%	355.6	2,234.9	2,590.5	676.8	3,260.1	3,260.1
Bayankhongor	83.0	4.2	1.4	4.3	361.2	13.52%	312.3	3,134.0	3,446.3	1,319.0	4,737.8	4,737.8
Bulgan	60.5	4.2	0.6	4.2	260	13.52%	224.8	2,366.2	2,591.0	973.8	3,550.5	3,550.5
Gobi-Altai	56.7	4.2	2.6	4.4	250.5	13.52%	216.6	3,267.4	3,484.0	2,153.3	5,693.7	5,693.7
Dornogobi	63.8	4.2	1.7	4.3	278.5	13.52%	240.9	2,750.0	2,990.9	2,591.1	5,579.9	5,579.9
Dornod	75.2	4.2	0.7	4.3	324	13.52%	280.2	2,833.7	3,113.9	1,037.1	4,140.6	4,140.6
Dundgobi	44.4	4.2	1.2	4.3	192.4	13.52%	166.4	2,600.9	2,767.3	1,359.2	4,114.7	4,114.7
Zavkhan	69.7	4.2	2.8	4.4	308.9	13.52%	267.1	2,665.0	2,932.1	1,211.5	4,185.8	4,185.8
Uvurkhangai	113.0	4.2	0.1	4.2	482.5	13.52%	417.3	2,790.2	3,207.5	254.5	3,444.4	3,444.4
Umnugobi	59.7	4.2	156.9	13.7	816.2	13.52%	705.8	3,100.7	3,806.5	17,722.8	21,515.0	21,515.0
Sukhbaatar	57.4	4.2	10.6	4.9	281.3	13.52%	243.3	2,604.1	2,847.4	4,846.1	7,681.2	7,681.2
Selenge	106.2	4.2	11.8	4.9	527.8	13.52%	456.5	2,245.4	2,701.9	2,186.5	4,887.3	4,887.3
Tuv	90.1	4.2	7.1	4.7	422.4	13.52%	365.3	2,353.4	2,718.7	3,584.1	6,300.9	6,300.9
Uvs	75.8	4.2	0.1	4.3	323.6	13.52%	279.9	2,526.4	2,806.3	241.8	3,040.6	3,040.6
Khovd	81.5	4.2	0.3	4.3	348.6	13.52%	301.5	2,749.7	3,051.2	596.6	3,664.1	3,664.1
Khuvsgul	126.0	4.2	0	4.3	537.1	13.52%	464.5	2,825.9	3,290.4	113.0	3,395.6	3,395.6
Khentii	71.2	4.2	0.9	4.5	320.3	13.52%	277.0	2,677.1	2,954.1	1,477.7	4,417.2	4,417.2
Darkhan-Uul	99.9	4.2	2.3	4.4	439.5	13.52%	380.1	1,912.2	2,292.3	920.9	3,295.3	3,295.3
Ulaanbaatar	1,363.0	4.2	1.9	4.3	5,971.70	13.52%	5,165.3	8,457.2	13,622.5	772.1	14,393.7	14,393.7
Orkhon	94.4	4.2	183.5	15.3	1,447.40	13.52%	1,246.5	2,296.0	3,542.5	35.6	3,562.0	3,562.0
Gobisumber	16.1	4.2	0.8	4.3	69.4	13.52%	60.1	1,824.9	1,885.0	352.1	2,227.4	2,227.4
<b>Total</b>	<b>2995.9</b>	<b>92.4</b>	<b>388.2</b>	<b>116.2</b>	<b>14771.3</b>		<b>12,770.20</b>	<b>62,886.50</b>	<b>75,656.70</b>	<b>44,611.70</b>	<b>120,267.70</b>	<b>120,267.70</b>

Note: <sup>1</sup>mrr- 5% of mineral resources royalties – MNT 12,769.5 m  
Source: the Ministry of Finance



The LDF E-System (<http://tusuv-oronnutag.mof.gov.mn/>) was established in 2013 to provide transparency in the allocation of the GLDF to the local budgets. All 21 aimags upload their LDF reallocation amount and description of each project, for which the fund is used, including project name, type, funding, client, contractor, start date and end date.

The “2016 Compliance Audit Report on Expenditures of the General Local Development Fund” by the Mongolian National Audit Office revealed issues related to the allocations of the fund and use of the fund. Some of the issues noted were:

1. According to Article 59.2 of the Budget Law, aimags shall reallocate no less than 60% of transfers from the General Local Development Fund, using indicators defined in Article 59.3 of the Law. However, 10 aimags out of 21 aimags did not reallocate their funds according to the law. These aimags are Bayan-Ulgii, Bulgan, Gobi-Altai, Darkhan-Uul, Dornogobi, Dornod, Selenge, Zavkhan, Uvs and Khovd. Please refer to page 11 of “2016 Compliance Audit Report on Expenditures of General Local Development Fund” for more detail.
2. Allocations from the General Local Development Fund and the State Fund were not transferred according to the approved schedule. The allocations distributed to the Local Development Funds at aimag level were MNT 4964.4 million less in the 1<sup>st</sup> quarter and MNT 7654.4 million less in the 2<sup>nd</sup> quarter compared to the planned allocations. Therefore, MNT 11,648.1 million higher amount in the 3<sup>rd</sup> quarter and MNT 1,148.5 million higher amount in the 4<sup>th</sup> quarter were transferred to Local Development Funds compared to the planned allocations which made up the previous quarters’ shortages. Please refer to page 11 of “2016 Compliance Audit Report on Expenditures of General Local Development Fund” for more detail.

Detailed “2016 Compliance Audit Report on Expenditures of the General Local Development Fund” can be found at <http://www.audit.mn/wp-content/uploads/2017/06/oron-nutgin-hogjlin.pdf>.

## The Future Heritage Fund Law

In 2016, the Parliament approved the Future Heritage Fund Law. It replaced the existing Human Development Fund Law on 1 January 2017. The purpose of the law is to create a mechanism to collect part of the mineral revenues and other state income, and put these into a fund for future generations, together with regulating the use of the money in the fund.

According to the Law, the fund should consist of the following:

- Dividends received from SOEs and other entities in possession of production licences for mineral deposits of strategic importance, and the proceeds from the sales of such shares;
- The remaining balance after distribution to the Fiscal Stability Fund in accordance with the Fiscal Stability Law, or 65% of the mineral royalty payments collected in the budget;
- The remaining balance of the fund’s net investment income after 10% of the fund’s net investment income is transferred to the state budget starting from 2030;
- 50% of additional revenues collected to the state budget from legal entities conducting production of mineral resources as specified in Article 4.1.7 of the Minerals Law, by means of amending or revising laws and regulations of Mongolia, creating taxes through newly approved laws, or amendments made to the rate and level of taxes;
- Starting from 2018, 20% of the excess amount collected in the state budget over the base year’s targeted mineral revenues, excluding revenues mentioned above, is to be collected in the fund.

The Future Heritage Fund Law has 7 chapters and 33 articles, and regulates the activity of the Future Heritage Fund and management and organisation of the legal entity implementing the fund’s asset management.

## The Fiscal Stability Fund

When the market-selling price of a specific mineral is lower than the projected selling price, as a result creating a shortage in the projected revenue of the state budget, the Fiscal Stability Fund should make up this shortage. According to Government Resolution No. 396 which follows the Law on Special Funds, MNT 118.2 billion was transferred to the State Budget from the Fiscal Stability Fund's accumulation in 2014. In 2016, an interest income of MNT 10 billion and foreign exchange gain of MNT 7.4 billion were accumulated in the Fiscal Stability Fund and no mineral resource royalties revenue was accumulated. The resulting balance was MNT 332.4 billion in 2016.

Fiscal Stability Fund						MNT b
Income	2011	2012	2013	2014	2015	2016
Mineral resource royalties	241.0	94.7	46.9	39.9	2.3	-
<b>Total accumulation</b>	<b>241.0</b>	<b>335.7</b>	<b>383.5</b>	<b>307.3</b>	<b>314.5</b>	<b>332.4</b>

Source: the Ministry of Finance

Average annual mineral income of MNT 7 billion and average annual interest income of MNT 4.7 billion are expected to be accumulated in the Fiscal Stability Fund for the next three years.

Fiscal Stability Fund			MNT b
Income	2017	2018	2019
Mineral resource royalties	7.8	6.1	7.1
Interest income	4.7	4.6	4.7
<b>Total income</b>	<b>12.5</b>	<b>10.7</b>	<b>11.8</b>

Source: the Ministry of Finance

## The Human Development Fund

The Human Development Fund was established to create savings and an incremental permanent reserve from EI revenue. As stated in the Budget Law, the Human Development Fund consists of revenues that are collected and spent in accordance with the Human Development Fund Law, which was approved by Parliament on 18 November 2009. Parliament renews the Human Development Fund policy each year. The fund has the following revenue sources:

- Dividends from and sale of government shares in legal entities holding production licences of strategically important mineral deposits;
- 65% of mineral resources royalties from legal entities extracting and producing mineral resources;
- Net profit from the Human Development Fund's investments in securities and bonds; and
- A certain part of loans and prepayments received in regards to the usage of strategically important mineral deposits.

As reported in the 2016 Audit Report of the Human Development Fund by the MNAO, revenue accumulated to the fund was MNT 189 billion, which was 11.8% higher compared to the planned amount of MNT 169 billion. 99.2% of MNT 189 billion was from the mineral resources royalties.

The Human Development Fund became ineffective starting from 1 January 2017 and its remaining balance was transferred to the Future Heritage Fund.

KPMG requested all aimags to disclose sub-national transfers received from central government and distributed to soums through their Local Development Fund, Human Development Fund, and other transfers. All aimags except Uvs aimag responded to our additional information templates and disclosed their transfers. In addition, KPMG identified all aimags' Local Development Fund audit reports of MNAO.

two aimags, Arkhangai and Bayankhongor, disclosed their Local Development Fund formula detail in their audit reports. For more details, please refer to Appendix 23.a.

### 5.3.5 Country's budget and audit processes and government forecast for the country's budget (REQ 5.3b,c)

The State Audit Organisation audits, assesses, and advises on the financial statements and operational performance of the following in accordance with the State Audit Law:

- Performance of revenue and expenditures of state and local budget;
- State and local government entities;
- Legal entities with partial involvement of state and local government ownership; and
- Projects and programmes with financial support of state and local government budget.

The State Audit Organisation consists of the MNAO and Specialised Audit Offices in each of the aimags of Mongolia that are affiliated with the MNAO.

According to the MNAO website, the MNAO formulates an annual action plan along with a long-term mission plan of the State Audit Organisation. When formulating the plans, MNAO prepares the drafts and presents them to the Budget Committee of Parliament. When it is selecting topics and entities for comprehensive audit engagements, the MNAO focuses on issues that are receiving public attention at the time and considers its human and financial resources and auditing duration accordingly. All institutions related with state funding and ownership are audited every year either in a brief manner by MNAO affiliated audit offices or in a more comprehensive manner by the MNAO.

The MNAO publishes its performance and audit reports each year. The audit report of MNAO reveals the findings of issues and their causes and typically includes recommendations that are compulsory to adopt. In general, recommendations from the previous year's audit report should be reflected in the entity's financial statements and operational performance of the subsequent year. If it is not reflected and no progress is made, the MNAO can issue an official notice ordering the entity to implement the changes within the specific time frame set, which varies depending on the complexity of the issues. If the official notice does not produce any results, further regulatory actions can be taken.

For the 2016 performance report of the MNAO, please refer to the following link:  
<http://www.audit.mn/?p=16743>

For the 2016 national budget planning and performance, please refer to the website:  
<https://www.mof.gov.mn/category/budget/budgetof2016/>

#### Government forecast for the country's budget

The state's revenue from the Extractive Industry is expected to increase over the next three years. This government forecast was based on three main factors including macroeconomic factors, the projected price of extractive resources on global markets, and the operational plans of legal entities in the Mongolian Extractive Industry. Please refer to the following table for more detail.

Revenue forecast for the General State Budget			
MNT b	2018	2019	2020
General State Budget revenue	7,283.0	8,403.0	9,445.0
Extractive industry revenue to be accumulated in the General State Budget	1,315.6	1,510.4	1,619.3
<i>Proportion of Extractive Industry revenue in the General State Budget</i>	<i>18%</i>	<i>18%</i>	<i>17%</i>

Source: Mongolian General State Budget Statement for 2018 and Projection for 2019-2020.

The following table shows the projected volume of export for the upcoming years.

Projected volume of export				
Thous. ton	2017	2018	2019	2020
Coal	25,800.0	27,500.0	29,500.0	30,700.0
Copper concentrate	1,371.3	1,236.0	1,340.0	1,510.0
Iron ore	5,581.0	5,890.0	6,200.0	8,200.0
Fluorspar	268.6	288.6	300.6	300.6
Gold (except Oyu Tolgoi), tonne	17.0	16.9	17.0	18.5
Crude oil <sup>1</sup>	8,100.0	8,100.0	8,100.0	8,100.0

Note: <sup>1</sup>The measurement unit for crude oil is barrel.

Source: Mongolian General State Budget Statement for 2018 and Projection for 2019-2020.

Volumes of coal, iron ore, and fluorspar are expected to increase in the future. However, the volume of copper concentrate is expected to decrease in 2018 compared to the volume of copper concentrate in 2017. This is due to the construction work of the underground mine at Oyu Tolgoi. The volume of crude oil is expected to be constant.

The following table shows the projected price of commodities.

Projected price of commodities				
USD per ton	2017	2018	2019	2020
Coal	37.9	32.7	37.0	34.3
Copper				
Market price	5,149.8	5,159.7	5,148.9	5,137.2
Balanced prices	4,599.4	4,658.9	4,725.5	4,725.5
Iron ore	38.5	40.0	40.0	40.0
Fluorspar	276.7	276.7	276.7	276.7
Gold <sup>1</sup>	1,212.0	1,225.0	1,251.0	1,274.0
Crude oil <sup>1</sup>	55.0	56.0	56.0	56.0

Note: <sup>1</sup>The units used for gold and crude oil are ounce and barrel respectively.

Source: Mongolian General State Budget Statement for 2018 and Projection for 2019-2020.

The price of gold is expected to increase over the next three years. In contrast, the market price of copper is expected to decrease starting from 2018. The prices of iron ore, fluorspar and crude oil are expected to be constant.

## 5.4 State participation in EI

### 5.4.1 Government institutions related to EI

#### 5.4.1.1 Description of government institutions

The Extractive Industries are regulated industries overseen by a variety of government institutions in different capacities. In addition, EI companies have to make various payments to different government bodies for their permission to operate in the Extractive Industry and to earn revenues. For reconciliation purposes, government bodies receiving material payments from Extractive Industry companies were selected to participate in the reconciliation in accordance with a decision of the M.EITI National Council. The names of government bodies with the most involvement in the Extractive Industries along with their descriptions are provided below.

##### **Ministry of Mining and Heavy Industry (MMHI)**

The responsibilities of the MMHI involve working with the GoM to create clear mining policies that make best use of Mongolia's mineral resource pool in order to have an internationally competitive and stable domestic fiscal regime for mining.

(Please refer to <http://www.mmhi.gov.mn/> for details.)

##### **Mineral Resources and Petroleum Authority of Mongolia (MRPAM)**

MRPAM is a government agency which has been created through the merger of the Petroleum Authority of Mongolia and the Mineral Resources Authority of Mongolia in accordance with Parliament Resolution #4 dated 27 July 2016. MRPAM is responsible for the processing of licence applications and issuance of exploration and production licences. Aside from issuing exploration and mining permits, MRPAM's other responsibilities are to support the government administration in formulating development policies by providing the necessary information and creating a favourable environment in which to implement policy guidelines to increase investment in the sector.

In addition, the Petroleum Exploitation and the Petroleum Product divisions of MRPAM are organised to ensure, monitor and support the implementation of Product Sharing Agreements in accordance with the Petroleum Law of Mongolia and relevant government resolutions.

(Please refer to <https://mrpam.gov.mn/> for details.)

##### **Nuclear Energy Commission**

In 2014, the Nuclear Energy Agency was closed and its roles and responsibilities were transferred to the Nuclear Energy Commission. The establishment of the Nuclear Energy Commission of Mongolia dates back to 1962 and its main activities include the implementation of state policy on the exploitation of radioactive minerals and nuclear energy; granting and suspension of licences pertaining to nuclear facilities, materials and radioactive minerals; coordinating the activities of scientific research on the nuclear energy sector of Mongolia; and providing regulatory reviews and assessments to ensure nuclear and radiation safety.

In March 2015, the new structure and functions of the Nuclear Energy Commission were approved and accordingly, the number of Nuclear Energy Commission staff was limited to 33 personnel and the Prime Minister of Mongolia was appointed as Chairperson of the Commission.

(Please refer to <http://www.nea.gov.mn> for details.)

## **Ministry of Environment and Tourism (MET)**

The primary functions of MET are to organise the implementation of national policy and legislation on environmental protection and the proper use and rehabilitation of natural resources; and to ensure environmental balance. In addition, MET is also responsible for making decisions and approving rules and policies to be followed by local administrative bodies and capital city administrations in regards to specific issues relating to environmental protection.

(Please refer to <http://www.mne.mn/> for details.)

## **Ministry of Labour and Social Protection (MLSP)**

The main function of MLSP is to develop employment policies and implement the policies to promote employment, facilitate decent working conditions, and develop human resources through the improvement of professional skills. MLSP is also responsible for labour engagement and poverty reduction, the improvement of working conditions and living cost issues, the employment of foreign nationals within the territory of Mongolia, and the export of labour. Its mission is to create equal opportunities in the labour market and favourable conditions of work.

(Please refer to <http://www.mlsp.gov.mn/> for details.)

## **Mongolian Taxation Authority (MTA)**

According to the General Taxation Law of Mongolia, the National Taxation Administration comprises the state administrative body (MTA) which is in charge of tax agencies and tax offices of Ulaanbaatar, the aimags, and city districts; and tax units of soum and state tax inspectors. The MTA operates under the supervision of the government body in charge of finance (MoF).

The main functions of MTA are to ensure implementation of the tax legislation; provide taxpayers with information and advice; organise trainings; and to collect taxes for the state and local budgets.

(Please refer to <http://www.mta.mn/> for details.)

## **Mongolian Customs Office (CO)**

The Mongolian Customs is presided over by a Customs Central Body (Mongolian Customs Office) which is in charge of its affiliated custom houses and custom offices. CO is a state administrative authority responsible for implementing customs legislation nationwide and it operates under the supervision of the MoF.

The main functions of CO are to implement the customs legislation at a national level and ensure compliance; to determine customs control strategies; to regulate the activities of customs houses and customs branches; and to formulate and implement the Customs Development Programme.

(Please refer to <http://www.ecustoms.mn/> for details.)

## **General Authority for Social Insurance and Health (GASIH)**

GASIH consists of the Social Insurance General Office (SIGO) and local branches and units (inspectors and representatives). According to the Law of Mongolia on Social Insurance, GASIH functions under the authority of the government body in charge of social insurance issues and local authorities function under the authority of the relevant local governors and higher level social insurance authorities.

The purpose of GASIH is to administer pensions, health benefits, industrial accident compensation and unemployment insurance. Some of the activities include expanding the coverage of social insurance and

implementing the collection for the social insurance fund and expenditures from the same fund. GASIH also has an obligation to inform the public about social insurance activities and social security policies implemented by GoM.

(Please refer to <http://www.ndaatgal.mn/> for details.)

### **Government Agency for Policy Coordination on State Property (GAPCSP)**

Government Agency for Policy Coordination on State Property was established in accordance with Parliament Resolution #12. According to its webpage, there exist 82 entities that are partly owned or majority owned by the Mongolian state.

GAPCSP comprises of administrative office, procurement, state property registration and monitoring divisions. The GAPCSP is responsible for transparency in the operations of state owned companies and transparency of procurement to develop state property policy and improve management.

(Please refer to <http://www.pcsp.gov.mn/> for details.)

### **National Security Council**

The National Security Council's main activities are to provide seamless coordination and implementation of state policy on Mongolia's national security. Activities of the National Security Council are primarily regulated by the Constitution of Mongolia and the Law on National Security. The National Security Council is the highest state consultative body coordinating development and implementation of national security policy in Mongolia.

The National Security Council's activities are based on the National Security Concept which aims for favorable external and internal conditions for securing and protecting the national interests of Mongolia. In response to changing conditions and situations of national security in Mongolia, the previous national security concept, which was adopted in 1994, was renewed and adopted by the Parliament on 25 July 2010.

(Please refer to <http://www.nsc.gov.mn/> for details.)

### **Mongolian National Audit Office (MNAO)**

In January 2003, the Law of Mongolia on State Audit (LMSA) was enacted. It provided the legal basis for the MNAO as well as audit offices of the aimags and the capital city. In summary, this law regularises the government auditing authority's responsibility for auditing state revenue, expenditures, and corporate activities. The MNAO is responsible for the regulation of the audit process and methods, and implementation of audit policy, planning, quality control and assurance. The MNAO is comprised of five departments, namely the development division; compliance audit office; performance audit office; financial audit office; and supporting services division. It has two implementation units, the State audit office and aimag audit office.

Currently the MNAO and local government audit offices do not perform any procedures over, or provide any assurance on, the EITI data reported by government entities as part of the process. We understand that the M.EITI Secretariat has drafted a data assurance procedure to be performed over the EITI data reported by government entities and proposed this to the MNAO with the implementation of the proposed procedure to be piloted in 2018.

(Please refer to <http://www.audit.mn/> for details.)



### 5.4.1.2 Rate of government publications (REQ 5.3c)

In accordance with the Law on Information Transparency and Right to Receive Information of Mongolia enacted in June 2011, all government agencies and legal entities with state involvement should make information regarding their operations; human resources; budgets and financial documents; and procurement of goods and services, available on their website and update them continuously.

To encourage budget and financial transparency, the Parliament of Mongolia adopted the Law on Glass Accounts (“Glass Accounts Law”) so as to encourage the efficient and proper use of state and local government funds, the transparency of decisions and actions concerning budget management, and to provide public oversight. The law was effective from 1 January 2015. Under this law, government agencies and legal entities with state involvement are required to make information on budgets and financial matters (including the utilisation of financing and other government indebtedness) available to the public. The Glass Accounts Law describes that the Ministry of Finance shall maintain a central “glass accounts” website (<http://www.shilendans.gov.mn>) and all other entities subject to this law should provide additional information on their individual websites through a dedicated section on accounts and financial information.

#### **Ministry of Mining and Heavy Industry (MMHI)**

The MMHI publishes monthly statistical information on the mining sector on its website (<http://www.mmhi.gov.mn/public/file/id/277>). The MMHI also reports the market prices of mining products for export for the previous month on a monthly basis (<http://www.mmhi.gov.mn/public/files/id/37>).

#### **MRPAM**

MRPAM publishes the statistical information every month to improve transparency in the mining sector. The statistical information shows economic factors in the mining industry and provides forecasts for future development (<https://mrpam.gov.mn/article/83/>).

#### **MTA**

The Mongolian Tax Authority publishes reports on a quarterly basis: Budgeted Financial Statements of the MTA and Integrated Financial Position System Report. The MTA Budget is also reported annually (<http://www.mta.mn/app/f?id=2948&tid=11844>).

#### **MoF**

The state budget and its achievement is reported on the official website of MoF regularly. Furthermore, MoF should publish the state budget twice annually and on a quarterly basis should publish a report on the use of debt and aid, in particular any debt raised by way of issuing government securities, in accordance with the Glass Accounts Law (<http://www.shilendans.gov.mn>).

#### **CO**

CO reports customs income budget performance and distribution of expenditure on a monthly basis (<http://www.customs.gov.mn/2014-03-24-06-24-11/2014-03-24-06-24-49/2014-03-24-06-18-18>).



## 5.4.2 Brief introduction to SOEs in Extractive Industry (REQ 2.6b)

The following table illustrates the state and locally owned companies participating in EI sector and the beneficial ownership information provided by SOEs (please refer to Section 5.5.1. for beneficial ownership information of companies included in this report).

As per REQ 2.6b, a SOE is a wholly or majority government owned company that is engaged in extractive activities on behalf of the government.

State owned companies			
Entity name	Type of property	Mineral	In-scope of reconciliation
<b>Nationally Owned</b>			
Erdenes Mongol LLC	100% state-owned	Various	Yes
Erdenes Tavan Tolgoi JSC	Erdenes Mongol LLC owns 100%	Coal	Yes
Erdenes Oyu Tolgoi LLC	Erdenes Mongol LLC owns 100%	Copper, gold	No
Shivee-Ovoo JSC	Erdenes Mongol LLC owns 90%, others – 10%	Coal	Yes
Baganuur JSC	Erdenes Mongol owns 75%, others - 25%	Coal	Yes
Mon-Atom LLC	Erdenes Mongol LLC owns 100%	Uranium	No
Erdenet Mining Corporation LLC	GoM 51%, private ownership 49%	Copper, molybdenum	Yes
Mongolrostsvetmet LLC	GoM 51%, private ownership 49%	Gold, fluorite, coal and silver	Yes
Darkhan Metallurgical Plant JSC*	GoM owns 100%	Iron ore	Yes
Khorikh 443-r angi	State owned enterprise	Coal	No
SHTN	State owned enterprise	Construction materials	No
Avdrant Khaikhan	State owned enterprise	Granite	No
Bulgan aimag's Khorikh 439-r angi	State owned enterprise	Construction material	No
Uul uurkhain avrakh angi	State owned enterprise	Coal	No
Khentii aimagiin shuuhiin shiidver biyluuleh alba	State owned enterprise	Construction material	No
Shuuhiin shiidver guitsetgeh alba	State owned enterprise	Construction material	No
<b>Locally Owned</b>			
Tavantolgoi JSC	Local government ownership 51%, private ownership 49%	Coal	Yes
Mogoin Gol JSC	Local government ownership 51%, private ownership 49%	Coal	Yes
Bayanteeg JSC	Local government ownership 70%, private ownership 30%	Coal	Yes

Source: the Mineral Resources and Petroleum Authority of Mongolia, Erdenes Mongol, GAPCSP, aimags and publicly available sources

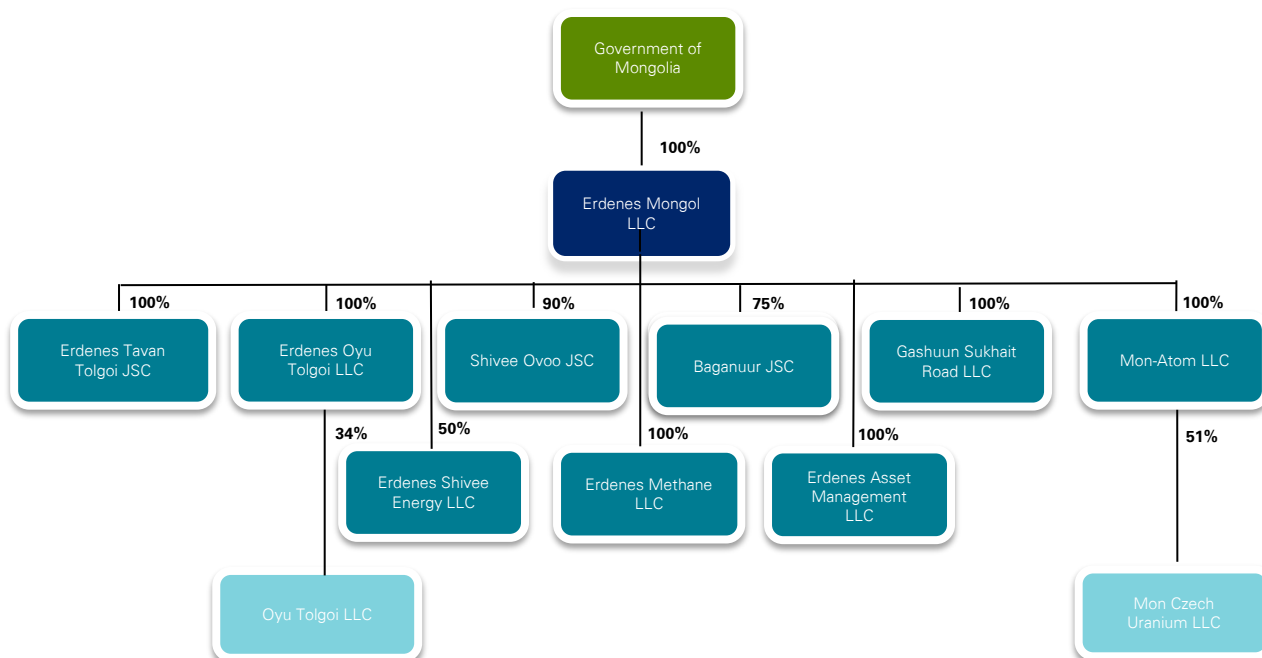
Note: \* Darkhan Metallurgical Plant underwent management privatisation in 2015.

Of 19 SOEs listed above, only 9 SOEs are considered to be material. The materiality of these 9 SOEs was based on their revenue contributions to the overall EI revenues in 2016. During the IA's Inception period, MSG agreed to consider 213 companies as making the most material payments. These 9 listed SOEs are included in those 213 material companies.

### Erdenes Mongol LLC (100% state owned)

Erdenes Mongol is a special purpose company created in order to represent GoM's stake in developing and owning nationally strategic mineral deposits within the territory of Mongolia. It holds equity shares in four of Mongolia's largest mining assets - Oyu Tolgoi LLC (indirectly via Erdenes Oyu Tolgoi LLC), Erdenes Tavan Tolgoi JSC, Baganuur JSC, and Shivee Ovoo JSC. It also holds equity shares of more than 50% in Mon-Atom LLC and Gashuun Sukhait Road LLC. In 2016, Erdenes Mongol established

three subsidiaries - Erdenes Asset Management LLC and Erdenes Methane LLC with 100% ownership and Erdenes Shivee Energy LLC with 50% ownership.



Source: Erdenes Mongol

### Establishment of Erdenes Mongol LLC

Erdenes Mongol LLC, through its subsidiaries, invests in mining activities producing copper, gold, molybdenum, silver, coking and thermal coal, zinc concentrates, iron ore, mixed metal and phosphorite. The company was founded in 2007 in accordance with Government Resolution 266 (15 November 2006) and the State Property Committee Resolution No.52 (22 February 2007), and is based in Ulaanbaatar.

In connection with Parliamentary Resolution No.27, which identified certain “strategically important” deposits, Parliament introduced the Human Development Fund Law in 2009, to accumulate the State’s mining sector revenues from those strategic deposits and distribute them equally to Mongolian citizens. According to Article 8.2 of the Human Development Fund Law, SOEs shall be the vehicle to implement the ownership rights of the state share in legal entities that hold production licences of strategically important deposits. A strategically important deposit is defined as a deposit large enough that it could potentially impact on national security or economic and social development of the country at a national or local level.

The company’s Charter was revised and approved as per Government Resolution 347 dated 12 October 2013.

### Erdenes Tavan Tolgoi JSC (100% owned by Erdenes Mongol)

Erdenes Tavan Tolgoi JSC was founded in 2010 and is based in Tsogttsetsii soum, Umnugovi aimag. Erdenes Tavan Tolgoi operates as a subsidiary of Erdenes Mongol LLC to commercialise the Tavan Tolgoi strategic coal deposit. Tavan Tolgoi is one of the largest coking coal deposits in the world, with 7.4 billion tonnes of thermal and coking coal resources. The Erdenes Tavan Tolgoi mine is located 540 km south of Ulaanbaatar and 270 km from the Chinese border.

#### Erdenes Oyu Tolgoi LLC (100% owned by Erdenes Mongol)

Erdenes Oyu Tolgoi is a subsidiary of Erdenes Mongol LLC. Erdenes Oyu Tolgoi controls a 34% share of Oyu Tolgoi LLC since 2011. Oyu Tolgoi was previously controlled by Erdenes Oyu Tolgoi's parent company Erdenes Mongol on behalf of the government, in accordance with an agreement with Rio Tinto (the ultimate controlling shareholder of Turquoise Hill) signed on 6 October 2009.

#### Shivee Ovoo JSC (90% owned by Erdenes Mongol)

The Shivee Ovoo mine was commissioned in 1990 and operates in the Shivee Ovoo brown coal deposit located in Govisumber aimag.

The Government holds a 90% share in Shivee Ovoo, with the rest held by private shareholders. The Government shareholding was transferred to Erdenes Mongol LLC in 2013 and currently the company operates as a subsidiary of Erdenes Mongol LLC. Current reserves at the deposit are estimated at 2,708.7 million tonnes.

#### Baganuur JSC (75% owned by Erdenes Mongol)

Baganuur JSC was established in 1978 to supply coal for thermal power plants which are part of the Central Energy System (CES) of Mongolia. On 16 March 2013, the Government's interest in Baganuur JSC was transferred to Erdenes Mongol LLC, and it is now managed as a subsidiary of Erdenes Mongol LLC. Its coal reserves have been estimated at 812 million tonnes.

#### Tavan Tolgoi JSC (Local government ownership 51%, private ownership 49%)

Tavan Tolgoi JSC restructured as a state owned company in 1994, pursuant to Resolution 42 of the privatisation committee of the Government of Mongolia. From 1995, Tavan Tolgoi JSC started operating as a locally owned joint stock company. The Tavan Tolgoi coal mine is located in the central South Gobi region of Mongolia, which is approximately 270km north of the Mongolian-Chinese border.

#### Mon Atom LLC (100% state owned)

Mon Atom was established in 2009 by Government Resolution No. 45 on Establishing a State Owned Company. The company's main objective is to conduct geological studies around Mongolia to locate uranium and other radioactive minerals. Mon Atom owns 51% share of Mon Czech Uranium LLC.

#### Gashuun Sukhait Road LLC

In 2011, the Mongolian private sector Energy Resources LLC was commissioned by the Government of Mongolia on the "Coal Export Promotion in 2013" Resolution No. 299, transferring the ownership of the road to Erdenes Mongol LLC. In 2014, Gashuun Sukhait Road LLC was established as a joint venture between Energy Resources LLC, Erdenes Tavan Tolgoi JSC and Tavan Tolgoi JSC; major coal exporters in Mongolia. Erdenes Mongol LLC is currently working as a roadblock operator.

#### Erdenes Methane LLC

Erdenes Methane LLC was set up in February of 2016 as a wholly owned subsidiary of Erdenes Mongol LLC with a purpose to explore for conventional and unconventional oil and gas, raising investment, managing transportation and providing consultancy services.

#### Erdenes Shivee Energy LLC

The company was established to build integrated eco-friendly and economical coal and renewable energy based power plant to supply energy to both the domestic and Chinese markets as well as Northeast Asia.

### Erdenet Mining Corporation LLC (51% owned by GoM)

Erdenet Mining Corporation LLC is one of the largest copper mines and processing plants in the world. Its operations and history date back to 1978 when it was established through an intergovernmental agreement between Mongolia and Russia. In 2016, the 49% Russian Government share was transferred to a private Mongolian party. Although the deal has been a topic of public debate since the transfer, the GoM share still remains 51% as of writing of this report. In 2016, the plant produced 657.3 thousand tonnes of copper concentrate.

### Mongolrostsvetmet LLC (51% owned by GoM)

Mongolrostsvetmet is a fluorspar mining and production company with three underground and two open-pit mines and a mineral processing facility. The company produces both acid and metallurgical grade fluorspar and gold concentrates. Much like Erdenet Mining Corporation, the 49% Russian Government share of Mongolrostsvetmet was transferred to a private Mongolian party. Although, the share transfer is still in a matter of public debate, the GoM share remains 51% as of writing of this report.

### Mogoin Gol JSC (Local government ownership 51%, private ownership 49%)

Mogoin Gol JSC is a coal mining enterprise, established in 1970. The deposit is located in Khuvsgul aimag and the company has been listed on the Mongolian stock exchange since 1994.

### Bayanteeg JSC (Local government ownership 70%, private ownership 30%)

Bayanteeg JSC is a coal mining enterprise, established in 1961. Its deposit is located in Uvurkhangai aimag, 560km from Ulaanbaatar. The company was restructured as a joint-stock company in 1995 and 70% of its share is owned by the local government. The company has been listed on the Mongolian stock exchange since 1994.

### Darkhan metallurgical plant JSC (100% state owned)

The Darkhan metallurgical plant was established in 1990 on the basis of Darkhan–Selenge iron-ore deposits. The deposit is listed as a strategic deposit with estimated reserves of 230 million tonnes. Within the framework of a plan to develop Darkhan metallurgical plant into a mining and metallurgical industrial complex, the plant launched its iron ore wet magnetic processing facility in 2014. In 2015, the management of Darkhan metallurgical plant was privatised.

### Other SOEs

Based on the licence information provided by MRPAM, we noted further state involvement in the EI sector through SOEs, however, these entities did not make material payments in 2016. As such, they were out of scope for reconciliation. These SOEs include Khorikh 443-r angi, SHTN, Avdrant Khaikhan, Bulgan aimag's Khorikh 439-r angi, Uul uurkhain avrakh angi, Khentii aimagiin shuuhii shiidver biyluuleh alba, and Shuuhii shiidver gutsetgeh alba. Sukhbaatar uul uurkhai, noted in the previous years' reports, was privatized in 2015 and thus removed from the list of SOEs.

### Board of Directors

A total of 7 SOEs have provided BOD information. Please refer to Appendix 24.a for more details.

### State participation in petroleum sector

In July 2014, the Parliament of Mongolia approved a revised version of the Petroleum Law, replacing the 1991 Petroleum Law as described in Section 5.1.2. In addition to conventional crude oil products, the law covers other resources, such as shale sands, coal-bed methane and natural bitumen, amongst others. As the primary regulator, MRPAM and MMHI are responsible for matters such as concluding PSAs (as authorised by the government), approval of annual plans, and the supervision of fee payments. Please refer to Section 5.1.4 for more details on the responsible government institutions.

### 5.4.3 Financial relationship between government and SOEs (REQ 2.6a)

#### **Prevailing rules regarding the financial relationship between government and SOEs**

Relations between the GoM and SOEs are regulated by the Law on State and Local Property of Mongolia (LSLP), and the relevant procedures, including State Ownership Implementing Procedure, are adopted in relation to this law. If such law does not address specific relations for those bodies, the Company Law and SOEs' charter shall apply.

The Article 21.1 of LSLP defined SOE as legal entity with state ownership shares or state properties.

State Property Representative for SOEs is delegated in accordance with State Ownership Implementing procedure. According to Article 2 of aforementioned procedure, State Property Representatives in the Extractive Industry SOEs are appointed as follows:

- the GoM shall appoint or release Erdenes Mongol LLC's chair and members of the BOD in accordance with Clauses 7.1 and 8.2 of its Charter, which was approved by the GoM Resolution #104 of 2016.
- State ownership representative in the Shareholders' meeting and BOD of Oyu Tolgoi LLC shall be nominated by Erdenes Oyu Tolgoi JSC with guidance from the GoM Implementing Agency and shall be appointed or released by Oyu-Tolgoi LLC's shareholders' meeting.
- Chair and members of the BOD of Erdenes Mongol LLC's subsidiaries such as Erdenes Tavantolgoi JSC, Erdenes Oyu-Tolgoi JSC, Baganuur JSC, Shivee-Ovoo JSC, and Mon-Atom JSC shall be appointed or released under procedures stipulated in the Clause 11.8 of Erdenes Mongol LLC's Charter, approved by the GoM Resolution #104 dated 2016.
- State administrative body in charge of state policy coordination and regulation shall appoint or release chair and members of BOD of Erdenet Uildver LLC, Mongolroostsvetmet LLC with guidance from the Government Implementing Agency
- Except as otherwise stated in 2.4-2.9 of State Ownership Implementing Procedure, State Administrative Body in charge of state policy coordination and regulation (currently GAPCSP) shall appoint or release State Ownership Representative in the Shareholders' meeting and BOD.

Article 21.13 of LSLP indicates that State authority's shareholder shall request the determining the amount of SOE's dividend to the BOD in writing. Unless as otherwise stated in the Charter, Article 46.1 of the Company Law states that the BOD (or Shareholders' meeting in place of the BOD) shall make the decision on whether to allocate dividend. Such a decision covers the allocated amount for each share, shareholders' list release date of the shareholders eligible for dividend allocation, and the dividend allocation date.

Article 21.16 of the LSLP states that State administrative body in charge of finance and budget (currently MoF) grants permission to SOEs and entities with State majority ownership to obtain a loan and to issue stock. It is prohibited to perform such activities without such permission.

#### **Practice regarding the financial relationship between government and SOEs**

Of 19 SOEs listed in Section 5.4.2, only 9 SOEs are considered to be material. The materiality of these 9 SOEs was based on their revenue contributions to the overall EI revenues in 2016. During the IA's Inception period, MSG agreed to consider 213 companies as making the most material payments. These 9 listed SOEs are included in those 213 material companies.

During the IA's Inception period, KPMG had meetings with officials of Erdenes Mongol and GAPCSP to discuss rules and practice regarding the financial relationship between government and SOEs. In addition, specific additional information template for SOEs to identify the EITI Standard's SOE

requirements was developed and sent to 9 SOEs. The SOE specific additional information template included information such as financial relationship between SOE and government, loan and loan guarantees, transfers and quasi-fiscal expenditures.

In addition, as agreed by MSG, we requested their audited financial statements (AFSs) to further identify transactions required by the Standard. When the AFSs are not provided by the SOEs, we obtained those statements from the MNAO. We noted that most of the SOEs have 2 types of AFSs - one by the MNAO and one by independent external auditors - and it is often the case that the financial statements audited by MNAO are more general and summarised compared to the ones audited by independent external auditors. Six of the nine SOEs that sent their AFSs provided the ones by MNAO.

KPMG contacted SOEs directly when clarifications were needed in the practice of transferring funds, issuing dividends etc.

### Transfer of funds

Please refer to Section 5.4.5 for more details.

### Retained earnings

According to the MNAO's compliance audit report on Human Development Fund, plans were made to transfer a dividend of MNT 3 billion to the Human Development Fund in 2016 from Erdenet Mining Corporation. However, because the board of members' meeting of Erdenet Mining Corporation was not held in 2015 and 2016, no decision was made on the dividend payment. As such, a dividend was not paid to the Human Development Fund. Although the dividend was not made, the practice of deciding dividend payments seems to be in accordance with the rules described above.

SOEs stated that dividends declared are in line with the regulations stated above. In particular, Baganuur stated that the Dividend Procedure, approved on 19 April 2016, is used by Baganuur's BOD to declare and distribute dividends to its shareholders. Although the company was profitable for 2016, Baganuur's Shareholders' Meeting No. 4 resolved that no dividends shall be declared in 2016, because it did not satisfy the following condition: the company's financials shall meet payment capability after the dividend is declared.

In addition, Erdenet Mining Corporation stated that it declares dividends based on the Company's Charter Article 12.1 and 12.2 and "Procedure of Declaring Dividends" resolved by Article 6.2 of the protocol of the BOD's Meeting No. 37 of 2007.

Retained earnings as of year end 2016, net profit (loss) and dividends declared in 2016 of material SOEs are set out in the table below:

Net profit (loss) and dividends					MNT m
No.	Company ID	Company name	Retained earnings as of year end 2016	Net profit (loss)	Dividends declared
1	2008572	Baganuur JSC	8,108	1,342	-
2	2014491	Bayanteeg JSC	1,695	922	25
3	5124913	Erdenes Mongol LLC	(48,780)	52	-
4	5435528	Erdenes Tavan Tolgoi LLC	(416,563)	(198,840)	-
5	2074192	Erdenet Mining Corporation LLC	614,285	(126,781)	-
6	2034859	Mogoin gol JSC	997	109	41
7	2550466	Mongolroostsvetment JSC	(33,875)	(14,458)	-

Net profit (loss) and dividends					MNT m
No.	Company ID	Company name	Retained earnings as of year end 2016	Net profit (loss)	Dividends declared
8	2004879	Shivee Ovoo JSC	5,021	2,090	130
9	2016656	Tavantolgoi JSC	78,403	54,042	40,342

Source: Net profit and dividends data received from SOEs through additional information templates

SOE dividends to the national and local governments are two of the revenue streams up for reconciliation. The methodology agreed by MSG during the IA's inception period dictates that only material revenue streams are to be reconciled. Revenue streams for SOE dividends to the national and local governments were considered not material per methodology agreed. Therefore, the dividends stated above are not reconciled.

#### Re-investment and third-party financing

Baganuur noted that it signed a concession agreement with Baganuur Power LLC on 23 March 2016 to sell coal. The buyer side signed a BOT concession agreement to implement the "Baganuur Power Plan" project with GoM on 1 April 2015. The buyer side agreed to purchase coal from Baganuur JSC during the concession agreement period.

We found no other cases reported of reinvestment or third-party financing in 2016, based on: the information received by the SOEs, a review of their financial statements, and an inquiry to Erdenes Mongol and GAPCSP.



#### 5.4.4 Disclosure on Government's level of ownership and loans and loan guarantees (REQ 2.6b)

##### Government's level of ownership

According to the EITI Standard, ownership level of government and SOEs in mining, oil and gas companies operating within the country's oil, gas and mining sector (including those held by SOE subsidiaries and joint ventures) and any changes in the level of ownership during the reporting period, should be disclosed.

Based on the information provided by SOEs and review of their audited financial statements, we found no change in either the level of Government ownership level or change in capital shares.

Although, there was no change in the GoM's 51% share of ownership in Erdenet Mining Corporation LLC and Mongolrosstsvetment LLC, Russian state-owned entity Rostekhnologii Corporation's shares of 49% of these SOEs were sold to Mongolian Copper Corporation LLC in June 2016. The deal is in much public debate and is still ongoing. The terms of the deal are neither officially released nor publicly available at the time of writing this report.

Lastly, in 2016, Erdenes Mongol LLC established three subsidiaries - Erdenes Asset Management LLC and Erdenes Methane LLC with 100% ownership and Erdenes Shivee Energy LLC with 50% ownership. None of these subsidiaries hold licences in the Extractive Industry presently. For more about these subsidiaries, please refer to Section 5.4.2.

##### Loans and loan guarantees

Where the government and SOEs have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details of these transactions should also be disclosed.

Based on the information provided by SOEs and reviews of their audited financial statements, we found the following loans and loan guarantees issued by GoM and/or extended by SOEs:

SOEs	Loan/ Loan guarantee	Contract start date	Loan amount m	Contract term/ description	Loan period	Involved parties	Comment
<b>Loans and loan guarantees issued by the Government</b>							
Erdenes Tavan Tolgoi	Chalco loan	2011.07.26	USD 350	Agreement with Chalco 3%-10.4% annual interest rate		Chalco, GoM	Erdenes Tavan Tolgoi had been paying USD 350 million to Chalco since 2011. As of 31 March 2017, the loan was paid in full.
	Contract No 3-TZ-B-2012-144	2012	USD 100	For railway transportation development	36 months	DBM	
	Contract No. 3-ET-HO-2012-12-162	2012	USD 100	For export development	36 months	DBM	
Baganuur JSC	Budget loan	2016.10.04	MNT 16,800	Budget loan agreement		Ministry of Energy	Baganuur JSC took the loan with a purpose to continue its operation reliably, to repair and renovate the technology and devices, and to reserve fuel for the preparation of 2016-2017 winter. The loan was spent accordingly and paid in full within the fiscal year.
	Contract No. 3-BN-HO 2013-11	2013.04.23	MNT 18,634	DBM loan agreement		DBM	Baganuur JSC took a loan from DBM to renovate its technology. In 2016, an amount of MNT 4,740 m was paid towards the loan.
	Contract No. MOG-2854	1996.07.17	USD 31,127	Transferrable loan agreement with MoF regarding a loan from International Development Association with a guarantee issued by the MoF	12 months	MoF	In a scope of Mongol Coal project, Baganuur JSC took a loan from World Bank and Government of Japan with a guarantee issued by the MoF. In 2016, MNT 3,283 m was paid towards the loan.
	Contract No. MON-P4	1997.07.31	JPY 2,276	Transferrable loan Agreement with MoF regarding a loan from International Cooperation		MoF	



SOEs	Loan/ Loan guarantee	Contract start date	Loan amount m	Contract term/ description	Loan period	Involved parties	Comment
<b>Loans and loan guarantees issued by the Government</b>							
	Contract No. MON-P5	1997.07.31	JPY 92	Bank of Japan with a guarantee issued by the MoF		MoF	
Shivee-Ovoo JSC	Contract No. No.01-2016	2016.10.04	MNT 3,200	Budget loan agreement	3 months	MoF	Shivee Ovoo JSC took the loan with a purpose to continue our operation reliably and to repair and renovate the technology and devices for the preparation of 2016-2017 winter. The loan was spent accordingly and paid fully within the fiscal year.
	Contract No. MONP 4		MNT 34,302	Intergovernmental agreement		MoF	As of 31 December 2016, the loan balance was MNT 25,593 million.
	Contract No. MONP 5		MNT 44,688	Intergovernmental agreement		MoF	As of 31 December 2016, the loan balance was MNT 41,583 million.
Erdenes Mongol LLC	ADB loan	2016	USD 35	Loan agreement with ADB, Government guaranteed loan settlement agreement with MoF	144 months	ADB, MoF	In 2016, Erdenes Mongol signed on a loan contract with ADB with a guarantee of MoF. The purpose of the loan was to improve management of operational risk and finance and received USD 5.2 million as part of the loan.
	Contract No. 2/800	2015.12.31	MNT 170,595	According to the contract, the loan is to be paid in 2 phases in 2019 and 2020, and the accrued interest is to be paid in full in 2017 and the principal interest is to be paid according to the schedule.	72 months	DBM, MoF	As of 31 December 2016, the balance of principal loan amount was MNT 170,595 million and accrued interest was MNT 13,107 million.

Source: Information provided by SOEs and their audited financial statements

The following table shows detailed information regarding Development Bank of Mongolia's loans to SOEs.

SOEs	Loan / Loan guarantee information	Contract start date	Amount m	Contract term/description	Involved parties
Baganuur JSC	DBM loan	2013	MNT 18,634	12 months, 9.6% annual interest	DBM, Baganuur JSC
Central Geological Laboratory	DBM loan	2013	MNT 379.9	12 months, 9.0% annual interest	DBM, Central Geological Laboratory
Ministry of Mining and Heavy Industry	DBM loan	2014	MNT 585.5	12 months, 10% annual interest	DBM, Ministry of Mining and Heavy Industry

Source: the Development Bank of Mongolia

### 5.4.5 Transactions related to SOEs (REQ 4.5)

The EITI Standard requires that the MSG must ensure that the reporting process comprehensively assesses the material payments to SOEs from oil, gas and mining companies, and transfers between SOEs and other government agencies.

During the IA's inception period, MSG considered comprehensiveness of payments made to the national and sub-national governments and agreed on following definitions:

- SOEs' statutory payments to the national and sub-national governments consist of taxes and fees paid to the central government and aimag and soums. The comprehensive list of material payment streams is disclosed and reconciled. Please refer to Section 4.
- SOEs' fiscal transfer received from national and sub-national governments should be recorded in the national budget execution report. However, it was distinguished from SOEs quasi-fiscal expenditures as the key distinction is that the quasi-fiscal expenditures are the amount of payments not recorded in the national budget execution report but realised in the SOEs' financials. We identified only fuel subsidies received from central government can be classified as fiscal transfers received by SOEs. Please refer to Section 5.4.6 for more detail.
- Sub-national transfers are defined as the transfer of funds from central government to aimags and from aimags to soums. As such, no SOEs provide sub-national transfers. Please refer to Section 5.3.4 for more details about sub-national transfers.
- SOEs' non-fiscal transfers and payments were defined as any transfers or payments that are not identified in above categories. Through additional information templates for SOEs and review of SOEs' audited financial statements, we identified a few transfers and payments by SOEs in 2016. Six out of 9 SOEs reported having some form of transfers and payments. The remaining SOEs reported having no such transactions or did not disclose any related information:

Transactions related to SOEs								MNT m
No.	Company ID	Company name	Transfer received by SOE			Payment by SOE		
			Transaction description	Remittent	Amount	Transaction description	Receipient	Amount
1	2004879	Shivee Ovoo JSC	Coal payment	CHP 4	44,302	Management cost	Erdenes Mongol LLC	1,405
			Coal payment	Nalaikh CHP	346	Audit penalty payment	Government agency	73
			Coal payment	Us-Du	248			
2	2008572	Baganuur JSC	Budget loan	Ministry of Energy	16,800	Loan repayment	Ministry of Energy	3,000
						Loan closing	Ministry of Energy	13,650
3	2034859	Mogoin gol JSC	Coal payment	Khuvsgul CHP	707			
4	2074192	Erdenes Mining Corporation				Electricity payment	Erdenes Bulgan Electricity Distribution Network JSC	158,290
5	5124913	Erdenes Mongol LLC				Investment	Erdenes Mongol's subsidiaries	751
6	5435528	Erdenes Tavan Tolgoi LLC	Investment	Erdenes Mongol LLC	300			

Source: the information provided by the SOEs and audited financial statements

#### 5.4.6 Quasi-fiscal expenditures (REQ 6.2)

According to the EITI Standard, quasi-fiscal expenditures include arrangements whereby SOE(s) undertake public social expenditure such as payments for social services, public infrastructure, fuel subsidies and national debt servicing, etc. outside of the national budgetary process.

During the Independent Administrator's Inception period, the MSG agreed on the definition and it is evidenced in the Inception Report. In addition, the materiality threshold for quasi-fiscal expenditures was agreed to be MNT 100 million. This threshold amount was determined based on past experience. MSG reviewed SOEs' donations initially reported in between 2014 and 2016 which could be considered as quasi-fiscal expenditures. The total amount was MNT 38.4 billion. In addition, in 2014 EITI report, Shivee-Ovoo JSC reported to have MNT 860 million of quasi-fiscal expenditure. However, in 2015 EITI report, the company reported to have no such expenditure. Therefore, for the 2016 EITI report, MSG agreed to have MNT 100 million as a quasi-fiscal expenditure materiality threshold for SOEs as an experiment.

As agreed by the MSG, if the expenditures are defined as state expenditures; categorised as such in the Budget Law; are not recorded in the national budget execution report and are recorded in the SOEs' financial statements, then they are considered as quasi-fiscal expenditures.

Quasi-fiscal expenditures are divided into four categories and definitions agreed by the MSG are:

- Social services – if the given payment or support is categorised in the Budget Law as state expenditure, then only the part of expenditure, that is not recorded in the national budget execution report, but is recorded in the EI SOEs' financial statements, is considered as quasi-fiscal expenditure for social services;
- Infrastructure payment – expenditures incurred due to constructions of road, power line, bridges, or other heavy infrastructures and if the ownership of these constructions is transferred to government entity upon completion, then these are considered as quasi-fiscal expenditure for the part that is not recorded in the national budget execution report, but are recorded in the EI SOEs' financial statements. Other infrastructure expenditures such as repair of roads and power lines would be recorded under social expenditures (REQ 6.1);
- Fuel subsidies - the only part of the expenses that are not recorded in the national budget execution report and are recorded in the EI SOEs' financial statements are considered as quasi-fiscal expenditures for fuel subsidies;
- National debt servicing - the only part of the payments that are not recorded in the national budget execution report and are recorded in the EI SOEs' financial statements are considered as quasi-fiscal expenditures for national debt financing. This also includes EI SOEs' loans with government guarantees.

KPMG requested 9 selected SOEs - Baganuur, Bayanteeg, Erdenes Mongol, Erdenes Tavan Tolgoi, Erdenet Mining Corporation, Mogoin Gol, Mongolrostsvetment, Shivee-Ovoo, and Tavan Tolgoi - to disclose an existence of quasi-fiscal expenditures through additional information templates. The agreed definitions of quasi-fiscal expenditure including all four categories above were included in the templates. In addition, M.EITI Secretariat and KPMG provided joint training on the EITI Standard requirements relating to the SOEs including quasi-fiscal expenditures prior to data collection.

All nine SOEs responded on the quasi-fiscal expenditures, however only Baganuur, Shivee-Ovoo and Erdenes Mongol reported that they incurred quasi-fiscal expenditures. The remaining 6 responded having no such expenditures.

Shivee Ovoo JSC reported to have an expenditure for a kindergarten renovation for an amount of MNT 990 thousand. We also found infrastructure expenditure for roads for the amount of MNT 8,856 m in the Erdenes Mongol's audited financial statements, audited by MNAO.

In addition, we checked the existence of such expenditures in those SOEs' audited financial statements where such expenditures can be identified

SOE	Expenditure	Contract start date	Amount MNT m	Payment type	Recorded in national budget?	Recorded in company's financial statements?	Information source
<b>Social service</b>							
Shivee Ovoo JSC	Kindergarten renovation	2016.08.22	0.9	Cash	No	Yes	Received from SOE
<b>Infrastructure</b>							
Erdenes Mongol LLC	Road repair		8,856	In-kind	No	Yes	Audited financial statements

Source: SOE's additional information template and audited financial statements by MNAO

Erdenes Tavan Tolgoi LLC (ETT) reported that it had been paying USD 350 million to Chalco (Aluminium Corporation of China Limited) since 2011. Based on the public information, we considered a possibility of this payment being a national debt serving payment, as certain amount of the loan was transferred to the Human Development Fund where it was further re-distributed as a cash payment to Mongolian citizens, including a monthly payment of MNT 21,000 for each citizen. However, further discussion with the officials at ETT revealed that the loan was extended for ETT's internal purpose only and was received as prepayment of coal supply to Chalco. ETT informed that the amount transferred to the GoM through the Human Development Fund was fully recovered through a tax adjustment. In July 2017, ETT finished paying the USD 350 million to Chalco.

As for fuel subsidies, Baganuur JSC reported to have sold thermal coal to 6 state-owned power plants at subsidised prices. On the other hand, Shivee Ovoo JSC reported that it does not use subsidised prices for its sale of thermal coal.

Please refer to the following table for more detail of Baganuur's fuel subsidies. Baganuur reported that it spent MNT 2,588 million as quasi-fiscal expenditure that are not recorded in the national budget execution report and is absorbed in its financials.

Subsidies											
SOE	Subsidy type	Client	% of total coal supplies	Coal supply					Quasi-fiscal expenditure MNT m	Related law	Explanation
				Ton t	MNT m	Average coal price per ton	Average coal cost per ton	Average coal price per ton in USD			
Baganuur JSC	Sale of thermal coal to state-owned power plants below full-cost price.	CHP 4	50-60%	1,660	47,615	28,684	29,259	11.75	955	The Law on Energy	SOEs producing thermal coal make sales to state-owned power plants at subsidised prices, below full-cost prices and market prices. Baganuur JSC did not take any subsidies from the state budget in 2016.
		CHP 3	100%	1,285	36,941	28,741	29,259	11.75	666		
		CHP 2	100%	244	6,588	26,978	29,259	11.75	557		
		Darkhan Power Plant	50-60%	107	2,929	27,381	29,259	11.75	201		
		Amgalan Power Plant	40%	39	1,133	29,014	29,259	11.75	10		
		Baganuur Power Plant	100%	53	1,349	25,502	29,259	11.75	199		
Total				3,388	96,555				2,588		

Source: Information provided by SOEs

## 5.4.7 Sub-national payments (REQ 4.6)

### Sub-national payments by SOEs

As described in the Section 5.4.5 and agreed by the MSG, sub-national payments are taxes and fees paid to aimag and soum governments. Material sub-national payments are disclosed and reconciled. Please refer to Section 4 for more details.

Below is the summary of material sub-national payments made by SOEs in 2016. Please refer to Appendix 11 for more details.

Sub-national payments by SOEs								
Company name	Tax on vehicles and self-moving mechanisms	50% deposit to environmental protection special account	Land use fee	Donations and support provided to government entities	Fee for use of mineral resources of widespread	Fee for water use	Real estate tax	Total
Baganuur	25	-	253	-	-	247	102	627
Bayanteeg	1	-	1	-	-	1	14	17
Erdenes Mongol	2	-	-	-	-	-	-	2
Erdenes Tavan Tolgoi	8	-	240	-	-	87	26	361
Erdenet Mining Corporation	54	-	8,078	99	47	11,181	5,868	25,327
Mogoin Gol	1	10	3	-	-	-	10	24
Mongolroostsvetmet	19	-	40	-	-	861	53	973
Shivee-Ovoo	3	-	3	35	-	895	74	1,010
Tavan Tolgoi	4	-	39	-	-	19	25	87
<b>Total</b>	<b>117</b>	<b>10</b>	<b>8,657</b>	<b>134</b>	<b>47</b>	<b>13,291</b>	<b>6,172</b>	<b>28,428</b>

Source: Information provided by SOEs

## 5.5 Other matters

### 5.5.1 Beneficial ownership of companies (REQ 2.5)

#### 5.5.1.1 Public register and disclosure of beneficial ownership

In accordance with the EITI Standard REQ 2.5b (i), MSG agreed to disclose beneficial ownership information from the selected companies for reconciliation through additional information template. Although there is no government policy on the disclosure of the beneficial ownership specifically, this disclosure practice has been in place since 2013 EITI Report.

KPMG made requests to 213 companies selected for reconciliation to complete the template for beneficial ownership that was prepared in accordance with the REQ 2.5. The template includes identification of the beneficial owners, politically exposed persons and the level of ownership. A total of 47 companies submitted their beneficial ownership information on the M.EITI's E-Reporting system in accordance with the requirement. Please refer to Appendix 25.a for details of beneficial ownership information.

In addition, M.EITI discloses the beneficial ownership register through its website <http://www.eitimongolia.mn/en/beneficial-owners>.

#### 5.5.1.2 Roadmap for beneficial ownership information

The EITI Standard REQ 2.5b (ii), requires the MSG to publish a roadmap for disclosing beneficial ownership information. In accordance with such requirement, the Sub-working group of the MSG was established on 22 April 2016 to draft the roadmap with members from: the MMHI, Ministry of Justice and Internal Affairs, General Intelligence Agency, the MRPAM, the NSO, General Authority for Intellectual Property and State Registration, Financial Regulatory Commission, the Bank of Mongolia, Open Society Forum, Khil Khyazgaargui Alkham NGO, Khuvsgul Dalain Ezed NGO, National Resource Governance Institute NGO, Erdenes Mongol LLC, Energy Resource LLC and Boroo Gold LLC.

Set of activities were conducted as part of developing a roadmap in 2016. The activities included organization of meetings (May and October 2016); conducting of legal environment research by Open Society Forum (July to September 2016); provision of training of beneficial ownership disclosure by National Resource Governance Institute (August 2016) and drafting of the roadmap by the Sub-working (October to November 2016).

The draft roadmap was discussed in the MSG's meeting on 18 November 2016 and was approved by the National Counsel's meeting on 20 December 2016.

The roadmap has 7 objectives along with 32 planned activities to carry out until 2020 as set out below:

#### 2017 objectives

- Objective 1: To coordinate beneficial ownership disclosure with National Reform Priorities. In particular, to hold meetings with the National Counsel of Open Government Partnership and members of the Standing Committee of the Parliament to present and to hold discussions regarding the planned activities.
- Objective 2: To determine institutional framework for beneficial ownership disclosure. In particular, to organise seminars for government agencies, establish a working group for legal framework and make amendments to the relevant laws, Government Resolution #222 and the EITI Law.

- Objective 3: To formulate terminology, definition, materiality threshold and reporting cycle. In particular, to conduct survey, organise several discussions and meetings with MSG and present outcomes to the National Counsel.
- Objective 4: To ensure complete beneficial ownership disclosure by revealing if a politically exposed person is the beneficial owner of the EI company. In particular, the conflict of interest form will be updated.
- Objective 5: To organise promotional activities including training and consultation workshops between companies and civil society organisations, training for investigative journalists and live discussions on TV.

### **2018 objective**

- Objective 6: To conduct pilot collection of beneficial ownership information and ensure data accuracy by incorporating government bodies and agencies' data system, exchanging information and updating relevant forms.

### **2019 objective**

- Objective 7: To ensure beneficial ownership information is disclosed and is publicly accessible through the 2018 EITI report.

Please refer to Appendix 25.b for details of the roadmap.

Some of the planned activities of the 2017 objectives included several panel discussions organised between representatives of the MSG - company management boards, Civil Society Organisations, government entities such as Anti-Corruption Agency, the CO, the MRPAM, the MoF, the MNAO, General Authority for Intellectual Property and State Registration, Financial Regulatory Commission between December 2016 and June 2017.

The below outcomes were reached as result of aforementioned discussions under the planned activities stipulated in 2017 objectives:

- The National Anti-Corruption programme was incorporated into 2017-2023 annual work plan.
- Presented to the Open Government Partnership's stakeholders' group and Standing Committee on Economics of the Parliament.
- Amendment to the Government Resolution #222 of 2012 was approved in September 2017, which obliged Ministers of Mining and Heavy Industries, and Justice and Internal affairs to draft relevant law and submit to Cabinet meeting before end of 2017.
- Requested the MMHI to establish working group for legal framework. The request will likely to receive positive outcome.

#### **5.5.1.3 Open Society Forum's study on beneficial ownership disclosure**

Study for beneficial ownership disclosure was conducted by the Open Society Forum between June and September 2016 with a goal of finding ways to fulfill the disclosure of beneficial owners of the EI companies and to support the implementation of the EITI Standard. The study included representatives from the MMHI, the MRPAM, National Registration Office, Anti-Corruption Agency, and other MSG representatives.

The study assessed national laws and regulations and registration system against international benchmark and the EITI Standard. As a result, recommendations on the definition of "beneficial owner",



its scope, and ways to improve laws and regulations and registration systems related to the beneficial ownership were provided.

Please refer to website [http://eitimongolia.mn/sites/default/files/attachments/BO\\_Report.pdf](http://eitimongolia.mn/sites/default/files/attachments/BO_Report.pdf) for details of the study.

## 5.5.2 Contract transparency (REQ 2.4)

### 5.5.2.1 The government's policy on disclosure of contracts (REQ 2.4b)

In accordance with the laws currently effective in Mongolia, Government bodies have entered into a range of contracts and agreements with investing companies.<sup>5</sup> These agreements are regulated by several different laws, key examples of which are set out below.

Selected laws governing EI contracts		
Agreement type	Regulating law	Article(s)
PSA	Petroleum Law	17.3
Deposit development agreement	Nuclear Energy Law	29
Investment agreement	Minerals Law	5.3-5.5
	Nuclear Energy Law	30
Concession agreement	Concession Law	20
Agreements made with local authority	Minerals Law	42.9
Joint contracts e.g. agreements on land and water use	Minerals Law	35.3.7

Source: the Petroleum Law, the Nuclear Energy Law, the Minerals Law and the Concession Law

GoM has taken several actions on the disclosure of contracts and licences, including the assignment of a former Minister of Mineral Resources and Energy, D. Zorigt, to start improving the transparency of information relating to investment agreements and petroleum PSAs, including their execution, product sales and volumes of exports<sup>6</sup>. The GoM passed a resolution to make petroleum PSAs publicly available<sup>7</sup> and to approve templates for typical PSA agreements<sup>8</sup>. As a result, the PSA template for petroleum exploration and extraction activities was approved by the government on 16 March 2015. The common PSA template allowed disclosure of some contract terms which were previously considered to be confidential information of an organization. These terms include general terms and conditions, terminologies used, responsibilities of government entities, rights and responsibilities of parties, terms associated with transfer of rights, termination, return of areas, processes related to exploration, production and other activities, surveys and associated adjustments, reporting, accounting, identification of other minerals, overlap of areas, rights to own and transfer of assets, tax, foreign currency exchange rights, insurance and claim, dispute resolution, limitation of liabilities, force majeure etc. However, clauses related to cost, reimbursement, product sharing (Article 12) and bonus, service fee and other payments (Article 13) remain confidential.

In November 2015, a template for cooperation agreements between local authorities and petroleum licence holders, titled "Agreement on protecting environment and supporting local development" was approved by GoM Resolution #430. In March 2016, a template for cooperation agreements, between local authorities and mineral resources exploration and production licence holders, titled "Agreement on protecting environment, developing a mine, increasing jobs and improving infrastructure regarding establishment of a plant" was approved by GoM Resolution #179.

The goals of adopting the template include more clearly defining the rights and responsibilities of public administrative organisations and economic entities for investors, and enabling improved regulation over

<sup>5</sup>Source: M.EITI IV sub-work group on disclosing EI contracts

<sup>6</sup>Source: 8 Resolution No.222, GoM

<sup>7</sup>Template: <http://www.pam.gov.mn/content/БҮТЭЭГДЭХҮҮН-ХҮБААХ-ГЭПЭЭ-4782.shtml>

<sup>8</sup>Source: M.EITI IV sub-work group on disclosing EI contracts (Mongolian)

exploration and extraction activities. Based on amendments to the Minerals Law in 2014, contracts and licences must be approved by Parliament, the government, MPRAM, and the relevant local authorities.

Another step taken by GoM is the establishment of a government policy on the minerals sector, which was approved by Parliamentary Resolution #18 in January 2014. GoM stated the intention behind the policy is to develop open, transparent, and responsible mining. Paragraph 2.1.6 of the policy states that all information about state-funded and privately-funded geological research, exploration, and processing activities at all levels should be publicly disclosed and transparent unless there is a legal prohibition against such disclosure. Furthermore, Paragraph 3.5.2 states that the terms of local development agreements conducted between an investing company and local self-governing bodies should be transparent.<sup>9</sup> According to the Development Center for Mining in Mongolia, there are no specific terms about contract transparency in other EI sector laws and legislation such as the Minerals Law, Petroleum Law, Law on Nuclear Energy or Law on Investment Property<sup>10</sup>.

Parliament enacted the Law on Licencing in 1 February 2001 in order to regulate the issuance, suspension and revocation of licences to conduct mineral exploration and mining licences (refer to Section 5.1.2). MPRAM discloses a list of valid licences and information on changes to these on its website<sup>11</sup> on a monthly basis.

#### 5.5.2.2 Disclosure of terms of contracts (REQ 2.4a)

The Development Centre for Mining in Mongolia has concluded that the Mongolian legal framework regarding the disclosure of terms of contracts and licences is unclear. Other than the government policy on the minerals sector (mentioned in the previous section), the other laws and legislation for the sector have only limited provision on disclosure of contracts. For instance, in Articles 6.4 and 6.5.9 of the Law on Glass Accounts adopted in 2014, it is stipulated that "State and local-government owned entities must disclose information on concession agreements and joint venture agreements publicly". This requires the provision of information about the agreement but not the whole agreement itself.<sup>12</sup>

In light of its goal of disclosing contracts in the mineral resources sector and to bring stakeholders to a point of common understanding, M.EITI sub-working group #4 has been performing several actions during the period between May and November 2015. The result is to disclose agreements which have been collected in hard and soft copies by M.EITI during the process on M.EITI's website<sup>13</sup>. The database was opened in November 2015 and as at the date of writing, 25 agreements have been made public, of which 11 are cooperation agreements and 10 are social responsibility agreements made between local government and EI companies. Please refer to the following link for more detail: <https://eitimongolia.mn/en/node/4875>.

Another issue raised in relation to Mongolian laws is linked to the Law on the Right to Information and Information Transparency, and the Organisational Confidentiality Law. Article 21 and Article 3.2 of these Laws, respectively, provide protection for entities which do not wish to disclose information on the grounds that disclosure might be harmful to the lawful interests of the entity and its competitive

<sup>9</sup> Source: Government policy on mineral sector <http://www.legalinfo.mn/law/details/9756>

<sup>10</sup> Source: Development Centre for Mining in Mongolia "Current issues and legal framework regarding transparency of contracts in the Mongolian mineral sector"

<sup>11</sup> For the listing:

[http://www.mram.gov.mn/index.php?option=com\\_content&view=category&layout=blog&id=14&Itemid=34&lang=mn](http://www.mram.gov.mn/index.php?option=com_content&view=category&layout=blog&id=14&Itemid=34&lang=mn)

<sup>12</sup> Source: Development center for mining in Mongolia "Current issues and legal framework regarding transparency of contracts in the Mongolian mineral sector"

<sup>13</sup> Source: <http://www.eitimongolia.mn/en/node/4875>

advantage in the market, or that information relates to unique and confidential activities of the organisation or business entity.

As such, written permission from the responsible official of the business entity is required in order to disclose confidential information, technological solutions, projects, research documents, and other information<sup>14</sup>. This does allow for the terms of the contract to be disclosed publicly with the approval of the relevant company. Conversely, a public interest argument has also been made that companies should not have the discretion to refuse to disclose information<sup>15</sup>.

According to the Open Society Forum's report titled "Implementation of the General Administrative Law's Hearing Procedure on Contracts in the Extractive Industry", contracts in the Extractive Industry can be referred to as administrative contracts and are thus governed by the General Administrative Law. As mentioned previously in section 5.1.2, the law introduced a new procedure called "Hearing", which requires government authorities to conduct a hearing, to introduce a concept and purpose of their proposed plans, to those of the public whose rights and interest might be affected by the decision. According to the report, this new procedure would have a positive impact on the transparency of contract development process in the Extractive Industry and can potentially limit obscurity of contract terms that might negatively affect the public or positively benefit certain group. Please refer to the following link to access the report: [http://forum.mn/res\\_mat/2017/Zahirgaanii%20gerEE\\_XXIV.pdf](http://forum.mn/res_mat/2017/Zahirgaanii%20gerEE_XXIV.pdf)

It is anticipated that disclosure of the terms of contracts and licences will increase through the use of approved templates for key mining contracts in the future. The related projects have been initiated and are in progress.

In addition, the Gachuurt deposit development agreement and investment agreement with Centerra Gold Mongolia LLC and GoM are currently under development. The parties had a meeting in both Canada and Mongolia in March 2016, however, the parties did not reach a final decision. In January 2017, a working group was appointed to continue the progress further with Centerra Gold and no further actions have been made since then.

On 22 June 2017, with a collaboration of Society Forum, M. EITI Secretary and Ministry of Mining and Heavy Industry, the Resource Contract Database was launched online with an aim to enhance transparency for contracts in Extractive Industry. This online database enables public, civil society, journalists and academics to have an access to the full text of resource contracts and related documents. There are currently 35 contracts which include a PSA template, 1 PSA (DMW Petroleum AG), 22 cooperation agreements, 7 land and water usage agreements and other agreements posted in the database. Please refer to the following link for more detail: <http://www.iltodgerEE.mn/>

In addition to the 2 PSAs available through the Resource Contract Database, 2 PSAs are publicly available at the Resource Contracts which are PSA between former Petroleum Authority of Mongolia and DMW Petroleum and PSA between former Petroleum Authority of Mongolia and Storm Cat Energy Corporation.

As of writing this report, DMW Petroleum AG's two PSAs are in processes of termination as requested by the company in October 2016. In addition, the PSA with Storm Cat Energy Corporation is expired. Please refer to the following link for more detail:

[http://www.resourcecontracts.org/search?q=&country%5B%5D=mn&contract\\_type%5B%5D=Production+or+Profit+Sharing+Agreement](http://www.resourcecontracts.org/search?q=&country%5B%5D=mn&contract_type%5B%5D=Production+or+Profit+Sharing+Agreement)

<sup>14</sup> Source: Right to Information and Information Transparency Law <http://legalinfo.mn/law/details/374?lawid=374>

<sup>15</sup> Please refer to Development Center for Mining in Mongolia "Current issues and legal framework regarding transparency of contracts in the Mongolian mineral sector"

## Disclosure of contracts through KPMG's additional information templates

KPMG requested the selected 213 companies to disclose contracts signed with state and local government departments and 21 aimags to disclose contracts signed with EI companies through additional information templates. Through the templates, information such as a contract's start and end date, purpose; signatories from state and local authorities and companies was included. In addition, information on whether working group was appointed to prepare an agreement using a template in accordance with Government Resolution #179; if so, the number of members in the appointed working group; and whether "Hearing" procedure was conducted in accordance with the General Administrative Law was included. Lastly, information on a link to the website where the contract is publicly available; and whether the contract completion was evaluated were disclosed.

Out of 213 companies, 90 companies reported on 161 contracts. In addition, 17 aimags responded to our additional information templates and 4 aimags including Arkhangai, Dornogobi, Gobi-Altai and Orkhon did not respond to our additional information templates. 11 out of 17 aimags, including Bulgan, Bayan-Ulgii, Darkhan, Dornod, Gobisumber, Khuvsgul, Selenge, Uvurkhantai, Tuv, Bayankhongor, and Zavkhan responded that there were no contracts signed with EI companies. 7 aimags including Dornod, Dundgobi, Khentii, Khovd, Sukhbaatar, Umnugobi, and Uvs reported on 15 contracts. Please see Appendix 26 for details of each of the 176 contract disclosures.

### 5.5.3 Infrastructure provisions and barter arrangements (REQ 4.3)

Agreements are sometimes entered into between a government entity and a company in the Extractive Industry, by which the company provides goods and services in a non-monetary fashion (such as provision of infrastructure), in exchange for rights to the country's natural resources. Examples of infrastructure which could be provided include roads, railways, power plants, schools and hospitals. The benefits to the company could be in the form of exploration or production rights for oil, gas or mineral resources, and other elements such as access to land, energy and water resources. Such arrangements might be referred to as barter arrangements or "minerals for infrastructure" deals<sup>16</sup>.

According to the REQ 4.3 of the EITI Standard, KPMG requested information from 213 companies selected for reconciliation regarding infrastructure provision and barter arrangements that are more than MNT 500 million, an agreed materiality threshold by the MSG, through additional information templates. The template covers the terms of relevant contracts, parties involved, the resources pledged by the GoM in addition to the value of infrastructure works and the materiality of these agreements including details of investment.

Three companies reported on infrastructure investments through additional information templates requested by KPMG, however, these investments were social expenditures by nature as there were no resources pledged by the GoM. Please refer to Section 5.5.4 - Social expenditures for details.

MNT million

Infrastructure investments and barter arrangements reported by companies						
Company	Investment name	Investment date	Contract type	Investment amount	Resources pledged by the GoM	Parties involved
Javkhlant Ord LLC	100 Children kindergarten	30 December 2016	Own fund	980	No	Gurvantes soum, Umnugobi aimag, the Civil Representatives' Khural.
E-Trans LLC	Limestone mine of Tevsh Lake	15 June 2016	-	4.100	-	-
Oyu Tolgoi LLC	The Gashuun Sukhait Border Crossing Point	1 April 2014	Road construction, commissioning	-	-	Ochir Tuv LLC, Mon Road LLC
Oyu Tolgoi LLC	The Gashuun Sukhait Border Crossing Point	-	Road construction, commissioning	-	-	Ochir Tuv LLC, Mon Road LLC
Oyu Tolgoi LLC	The Gashuun Sukhait Border Crossing Point	-	Road construction, commissioning	-	-	Ochir Tuv LLC, Mon Road LLC

Source: Information provided by companies

We also made requests to all aimags for information about their infrastructure provisions and barter arrangements through the additional information template. Dundgobi and Umnugobi aimags submitted the details of infrastructure investments of 2016 as shown below in the table whereas Bayankhongor, Bulgan, Dornod, Darkhan-Uul, Gobisumber, Khovd, Orkon, Selenge and Tuv aimags reported that infrastructure investments and barter arrangements were not made in 2016. We found that these

<sup>16</sup> <https://guide.eiti.org/ru/node/86#def>

investments were social expenditures by nature as there were no resources pledged by the GoM. Please refer to Section 5.5.4 Social expenditures for details.

MNT million

Infrastructure investments and barter arrangements reported by aimags							
Company	Aimags	Investment type	Investment period	Contract type	Investment amount	Resources pledged by the GoM	Parties involved
Sanjat LLC	Dundgobi	Infrastructure and road construction	September 2017	To build paved road in Ulziit soum	808	No	Ministry of Construction & Urban Development, the Governor of Dundgobi, the Governor of Ulziit soum
Oyu Tolgoi LLC	Umnugobi	Sport hall of secondary school No.2,	2016	To transfer to local government ownership	796.8	-	Oyu Tolgoi LLC, Gobi - Oyu Development Fund, the Governor's Office
		10 bed-hospital of Bayan-Ovoo soum	2016	To transfer to local government ownership	1,088	-	Gobi-Oyu Development Fund, the Governor's Office
		Veterinary Hospital Centre of Khanbogd soum	2016-2017	To transfer to local government ownership	1,465	-	Gobi -Oyu Development Fund, the Governor's Office
Javkhlant Ord LLC	Umnugobi	28 <sup>th</sup> kindergarten building of Gurvantes soum	2016	To transfer to local government ownership	980	-	The Governor's Office of Gurvantes soum, Javkhlant Ord LLC

Source: Information provided by aimags

#### 5.5.4 Social expenditures (REQ 6.1)

During the Independent Administrator's Inception period, the MSG agreed on the definitions of mandatory and voluntary social expenditures and these are evidenced in the Inception Report.

As agreed by the MSG, mandatory social expenditures are defined as type of cash or in-kind commitments mandated by the law or contract with the government and must be disclosed and reconciled. The law dictates that social expenditures provided to the government entities must be disclosed. Voluntary social expenditures are defined as type of cash or in-kind commitments other than mandatory social expenditures.

Mandatory and voluntary social expenditures are collected through the M.EITI E-Reporting system. All mandatory social expenditures are disclosed and reconciled and a zero materiality threshold was agreed.

As for voluntary social expenditures, SOEs' materiality threshold for disclosure was agreed to be MNT 1 million and private companies' materiality threshold for disclosure was agreed to be MNT 5 million. MSG decided corresponding materiality thresholds based on the Law on Glass Account. According to the Law on Glass Account, the government entities and SOEs are required to disclose any expenditures above MNT 5 million. This amount was adopted for companies' disclosure and in order to receive in-depth information from SOEs, MSG lowered the threshold for SOEs to MNT 1 million.

After the reconciliation, the government reported to receive MNT 18,595 million and companies reported to provide MNT 18,596 million as mandatory social expenditures.

#### Mandatory social expenditures

96% of total mandatory social expenditures were provided by following companies, including both cash and in kind social expenditures. Please refer to Appendix 27 for details of mandatory social expenditures reported by companies.

MNT million

Mandatory social expenditures by top 15 companies						
Company	Education	Contract	Health	Culture and sport	Other	Total expenditure
Oyu Tolgoi LLC	61	13,805	174	-	345	14,385
Energy Resource LLC	103	964	133	-	61	1,261
Javkhlant Ord LLC	-	980	-	-	-	980
Jump Alt LLC	1	215	-	2	-	218
MoEnco LLC	1	84	111	-	-	196
GPF LLC	-	121	-	-	3	124
Ulz Gol LLC	-	104	-	-	-	104
Erdenet Uildver LLC	-	99	-	-	-	99
Cogegobi LLC	-	-	-	-	92	92
Boroo Gold LLC	1	84	2	-	4	91
Boldtumur Eruu Gol LLC	-	72	-	19	-	91
Southgobi Sands LLC	0.4	45.6	-	-	26	72
Platinum Land LLC	-	60	-	-	7	67
Erdeniin Tshirmaa Tal LLC	-	-	65	-	-	65
Mongol Mining and Exploration LLC	-	-	-	-	65	65
<b>Total</b>	<b>167.4</b>	<b>16,633.6</b>	<b>485</b>	<b>21</b>	<b>603</b>	<b>17,910</b>

Source: information received by companies and reconciled with government information by the Independent Administrator



## In-kind mandatory social expenditures

A total value of MNT 7,003 million donated by 30 companies was categorized as in-kind mandatory social expenditures and the majority of such commitments were allocated for the purpose of implementing social expenditure contracts made with the government as shown below in table.

MNT million

In-kind mandatory social expenditures reported by companies		
Company	Purpose	Total expenditure
Oyu Tolgoi LLC	Donated office and equipment for Local Citizens' Development Centre to the Governor's Office in accordance with contract price.	3,727
	Donated Land-78 to the Secondary School of Khanbogd soum	174
	Donated beds and equipment for the Hospital Centre by the amount transferred to the Munkhtrade LLC	9
	<b>Total</b>	<b>3,910</b>
Energy Resource LLC	Supplied electricity	964
	Supplied purified water	61
	<b>Total</b>	<b>1,025</b>
Javkhlant Ord LLC	Built kindergarten for 100 children in accordance with the contract	<b>980</b>
Jump Alt LLC	Donated gas for Galuut soum's development	<b>195</b>
MonEnco LLC	Built disinfecting post	111
	Maintenance for kindergarten	1
	<b>Total</b>	<b>112</b>
Ulz Gol LLC	Street lighting	<b>104</b>
Cogegobi LLC	Drawing air powerline to soum's water basin	<b>25</b>
	Construction at the center of Bag	<b>24</b>
	Repair of 12 mechanic wells in 3 Bags	<b>24</b>
	Rooftop maintenance of kindergarten	<b>9</b>
	Establishing forest line	<b>7</b>
	Awards and prizes for winners in naadam and festivals of soum	<b>3</b>
	<b>Total</b>	<b>92</b>
Erdenet Uildver LLC	Donation for local community	<b>92</b>
Southgobi Sands LLC	Donated environmental rehabilitation deposit #13779, #5267, #9449	4
	Donated grass	21
	Donated 2957.4 tonnes of coal for winter preparation	42
	<b>Total</b>	<b>67</b>
Platinum Land LLC	Donations in accordance with the social responsibility contract	60
	Donated UV ray treatment equipment	7
	<b>Total</b>	<b>67</b>
Erdeniin Tsakhirmaa Tal LLC	Constructed hospital extension	<b>65</b>
Boroo Gold LLC	Donated tractor for Bayangol soum's development	51
	Maintenance of the 30 km road	9
	21 hours of work by Loader - 980 for cleaning dump site	4
	<b>Total</b>	<b>64</b>
Mondulaan Trade LLC	Support local activities	<b>50</b>
SBF LLC	Donated loader	<b>40</b>
Zaamar Gold LLC	Rebuilt soum governor office's hotel	<b>32</b>
Ilt Gold LLC	In accordance with the social expenditure contract	<b>29</b>
GPF LLC	Truck	3

In-kind mandatory social expenditures reported by companies		
Company	Purpose	Total expenditure
	Donation to the Gurvansaikhan soum	15
	<b>Total</b>	<b>18</b>
Orgilmount LLC	Donated grass	9
Uulszaamar LLC	Donated 5 gers to families below poverty line	7
Gangar Invest LLC	Maintenance of licenced area	6
Monwolfram LLC	Furnished Cultural Centre	6
Monpolymet LLC	Apartment Program	6
BMNC LLC	Donated materials for construction maintainance, heater, medical supply to the Hospital Centre	5
Khuder-Erdene LLC	Donated beds to the Children's Hospital Centre	5
Taliin Gal LLC	Winter preparation, anniversary, new year festival, decoration, lunar new year ceremony	5
Driper Capital Mongolia LLC	Printed journals and purchased printer, computer and notebooks	5
Andiin Temuulel LLC	70th anniversary celebration for soum's development	2
Aduunchuluun JSC	Donated 40 tonnes of coal	1
Shariin Gol LLC	Annual celebration	1
Khos Khas LLC	Purchased seniors' gifts for Tsagaan Sar	1
SG Mining LLC	Purchased gifts for children	0.4
Shar Narst LLC	Stationaries	0.4
Cancorp Mongolia LLC	Made contributions to the education and environment	0.3
Zuv Zug LLC	Donated ambulance car	0.1
Buty LLC	Improvement for district	0.5
<b>Grand Total</b>		<b>7,003</b>

Source: Information received by companies and reconciled with government information by the Independent Administrator

## Non-governmental beneficiaries of mandated social expenditures

### Oyu Tolgoi LLC

In April 2015, Oyu Tolgoi LLC concluded the Cooperation agreement with Umnugobi aimag with their communities working together towards sustainable development of Umnugobi aimag and to support Oyu-Tolgoi project development. The Article 8.3 of this agreement states that Oyu Tolgoi will provide financial contribution of USD 5 million every year to Development Support Fund. In accordance with such a requirement, the Gobi Oyu Development Support Fund was established on 28 September 2015 as an independent legal entity consisting of members from Oyu Tolgoi LLC and administrative bodies of the Umnugobi aimag to finance and to ensure funds allocation for projects and programmes set out in the Funding guideline enacted to ensure the aforementioned agreement implementation.

In 2016, Oyu Tolgoi allocated a total of MNT 10,418 million to the Gobi Oyu Tolgoi Development Support Fund for development of social infrastructure projects.

Please see the table below for Oyu Tolgoi LLC and other companies' allocations to the non-governmental beneficiaries:

MNT million

Non-governmental beneficiaries of mandatory social expenditures reported by companies					
Company	Beneficiary	Contract	Culture and sport	Other	Total expenditure
Oyu Tolgoi LLC	Gobi-Oyu Development Fund	10,024	-	394	10,418
AGM Mining LLC	Batmunkh	-	0.8	-	0.8
Southgobi Sands LLC	Mongol Temee 999	-	-	5	5
Nordwind LLC	Mongolian Youth Association	-	-	1	1
<b>Total</b>		<b>10,024</b>	<b>0.8</b>	<b>400</b>	<b>10,424.8</b>

Source: Information received by companies and reconciled with government information by the Independent Administrator

### Voluntary social expenditures

As for 2016, a total of 24 companies and SOEs were donated MNT 664 million voluntarily to the following sectors shown in the table below. Please refer to the Appendix 28 for details of voluntary social expenditures.

MNT million

Voluntary social expenditures reported by companies and SOEs					
Company name	Education	Contract	Culture and sport	Other	Total expenditure
Shivee Ovoo JSC	11	-	18	5	34
Boldtumur Eruu Gol LLC	150	-	-	176	326
Bayanteeg JSC	4	-	-	-	4
Andiin Temuulei LLC	-	35	-	-	35
Specialminz LLC	-	50	-	-	50
GPF LLC	-	68	-	-	68
Darkhan Tumurlugiin Uildver JSC	-	12	10	-	22
Zon Khe Yu Tan LLC	-	-	-	5	5
Driper Capital Mon LLC	-	7	-	-	7
Mongolbolgargeo LLC	-	-	-	25	25
Southgobi Sands LLC	-	-	50	-	50
Boroo Gold LLC	-	7	-	-	7
MonEnco LLC	-	5	-	-	5
Tod Undraga LLC	3	-	-	-	3
Tsairtmineral LLC	-	-	-	5	5
Petrochina Dachin Tamsag LLC	-	-	-	2	2
Bilegt Khaikhan Uul LLC	-	3	-	-	3
Platinum Land LLC	-	2	-	-	2
E-Trans	-	2	-	-	2
Bagatayan LLC	-	2	-	-	2
Khuder Erdene LLC	-	4	-	-	4
Aduunchuluun JSC	-	-	1	-	1
Uulszaamar LLC	-	1	-	-	1
Max Impex LLC	1	-	-	-	1
<b>Total</b>	<b>169</b>	<b>198</b>	<b>79</b>	<b>218</b>	<b>664</b>

Source: Information provided by companies

### 5.5.5 Transportation revenues (REQ 4.4)

Where the revenues from the transportation of oil, gas and minerals constitute one of the largest revenue streams from EI, the government and SOEs are expected to disclose these under the EITI standard. During the Inception period, no materiality was specified and agreed to include all transportation revenue, if any.

KPMG requested from 9 selected SOEs for reconciliation through additional information template to disclose transportation revenues and payments associated with transportation of oil, gas and minerals.

Following SOEs submitted information regarding transportation revenues with details of the product transported, transportation taxes and tariff rate, and disclosure of revenues received by government entities and SOEs:

MNT

Transportation revenues reported by SOEs						
Company name	Product transported	Quantity transported	Unit	Transportation tax rate	Revenues distributed to GoM or SOEs	Total value
Shivee Ovoo JSC	Coal	-	-	Preferential tax rate	Ulaanbaatar CHP-4	44,301,771
	Coal	-	-	Preferential tax rate	Nalaikh Heating Station	345,729
	Coal	-	-	Preferential tax rate	Us-Du local ownership industry office	248,489
Baganuur JSC	Coal	1660.01	t	Preferential tax rate	Ulaanbaatar Railroad	47,615
	Coal	1285.31	t	Preferential tax rate	-	36,940
	Coal	244.18	t	Preferential tax rate	-	6,587
	Coal	106.97	t	Preferential tax rate	-	2,928
	Coal	39.07	t	Preferential tax rate	-	1,133
	Coal	52.91	t	Preferential tax rate	-	1,349
Tavantolgoi JSC	Coal	-	-	Preferential tax rate	-	-
Mogoin Gol JSC	Coal	-	-	Preferential tax rate	Ulaanbaatar CHP-4	-
Erdenet Mining Corporation LLC	Coal	-	-	Preferential tax rate	Ulaanbaatar CHP-4	-

Source: Information provided by companies

## 5.5.6 Implementation of mining activities and rehabilitation information

### Overview

Rehabilitation is defined for the purposes of this report as a set of environmental activities and measures aimed at restoring a damaged area's economic value and productivity, and other improvements to the conditions of an area which are in the public interest.<sup>17</sup> This is in accordance with MET's Order #A/318 dated 30 March 2015. The Order sets out the methodology for technical and biological rehabilitation to restore the areas destroyed by the mining operations.

In terms of rehabilitation, exploration and production licence holders should comply with the Environmental Protection Law as well as Articles 38 and 39 of the Minerals Law. Article 38 of the Minerals Law outlines the environmental protection obligations of exploration licence holders whereas Article 39 is for production licence holders.

According to the Minerals Law of Mongolia, exploration licence holders should prepare an environmental protection plan (EPP) within 30 days of receiving the exploration licence, in consultation with the environment inspection agency and Governor of the soum or district where the exploration is located. The EPP should include measures to ensure the level of environmental pollution does not exceed the accepted limits, as well as reclamation of the area back to its previous status in a manner that allows future public utilisation. The EPP should be approved by the Governor of the relevant soum or district and a copy should be delivered to the local environment inspection agency. EPPs are to be submitted by licence holders annually. Information on measures taken to protect the environment and proposed amendments to EPP due to new exploration machinery and technology and other adverse environmental impacts should be recorded on the annual EPP report and approved by the Governor of the relevant soum or district.

Production licence holders should make an environmental impact assessment (EIA) and prepare an environmental protection plan (EPP). The EIA should identify possible adverse environmental impacts from the mining operations on public health and the environment, and should include measures to avoid and minimise such adverse impacts. The EPP should contain measures to ensure that mining operations are conducted in the least damaging way to the environment possible, as well as preventive measures to protect the air quality, water quality, human populations, flora and fauna from adverse impacts. The EIA and EPP should be submitted to the MET annually. Upon approval, the licence holder should deliver copies of the EIA and EPP to the relevant Governor of the soum or district and the local environmental inspection agency of the area. If the environmental impact changes due to introduction of new equipment and technology during the valid licence term, the licence holder should provide an amended EIA and EPP to the MET and Governor of the aimag, soum or district and the local environmental inspection agency.

In order to ensure that licence holders comply with environmental protection requirements, both exploration and production licence holders must deposit an amount equal to 50% of their environmental protection plan budget for the year in a special bank account established by the Governor of the relevant soum or district. According to the Minerals Law, the deposit shall be refunded back to the exploration licence holder upon fulfilment of the obligations of the EPP. For a production licence holder, when the obligations of EPP and EIA are met, the deposit should be refunded at the mine closure. If a licence holder fails to fully comply with the measures provided in the EPP, the Governor of the relevant soum or district should use the deposit amount and appoint a specialist organisation with a rehabilitation permit to implement the measures. In this case, the licence holder should provide the additional funds required for rehabilitation activities without dispute. For more details regarding organisations with rehabilitation permits, please refer to Section 5.5.6.2. If a production licence holder fails to transfer the funds within

<sup>17</sup> Source: Technical and biological rehabilitation methodologies for damaged areas due to mining operations, MEGDT

one month following the commencement of mining activity in a year, the relevant Governor reserves the right to stop the mining activities for the year. Moreover, in case of failure to complete the reclamation activities for the year, the Governor and the professional inspection agency of the relevant soum or district jointly hold the right to prohibit the commencement of mining activities for the next year.<sup>18</sup>

Rehabilitation is classified into phases of technical and biological rehabilitation in accordance with MET's Order #A/318 dated 30 March 2015:

- Technical rehabilitation commences when a disturbed area is no longer in use. Technical rehabilitation activities include dumping soil and contouring the land to level it, shaping slopes and similar activities as needed;
- Biological rehabilitation commences after completion of technical rehabilitation and when the ground is stabilised. The main objectives of biological rehabilitation are the restoration and development of the land's natural biological state, which may include restoration of agricultural efficiency, development of fisheries and restoration of vegetation to prevent further adverse impacts on the environment. Before mining operations commence, environmental and biological preliminary research must be conducted in order to determine the appropriate revegetation required for biological rehabilitation.
- Soil rehabilitation starts by layering the ground with fertile topsoil to allow vegetation to grow naturally or artificially.<sup>19</sup>

KPMG requested from 213 selected companies to disclose their rehabilitation activities provided through an additional information template. A total of 100 companies responded on their rehabilitation activities in 2016. Please refer to Appendix 29 for details.

### Environmental protection special account

According to MET, in 2016, a total of MNT 1,093 million was deposited to environmental protection special accounts, and no refunds were disbursed. The ending balance as of 31 December 2016 was MNT 11,300 million as shown in the below table.

MNT million

Environmental protection special account			
Year	Movements		Ending Balance
	Deposit inflow	Disbursement	
2006	22	-	22
2007	612	-	634
2008	566	(21)	1,179
2009	385	(126)	1,438
2010	942	(1)	2,379
2011	1,216	(5)	3,590
2012	2,014	(16)	5,588
2013	1,545	(225)	6,908
2014	2,273	(1)	9,180
2015	1,027	(0)	10,207
2016	1,093	0	11,300

Source: the Ministry of Environment and Tourism

<sup>18</sup> Source: Articles 38, 39 of the Minerals Law of Mongolia

<sup>19</sup> Source: Technical and biological rehabilitation methodologies for damaged areas due to mining operations, MET

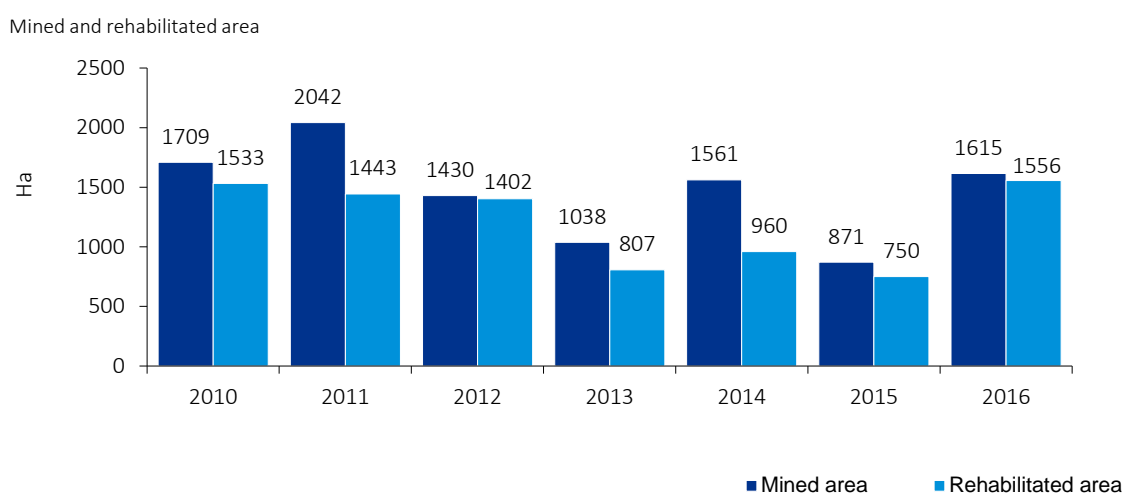
### 5.5.6.1 Implementation of mining activities and rehabilitation work performed in 2016

According to MRPAM's monthly Mineral Statistics, in 2016 a total of 1,615 ha was mined and 96% or 1,556 ha was rehabilitated. Total cumulative rehabilitation expenses incurred to the end of 2016 were MNT 99,248 million.<sup>20</sup>

	Unit	Prior years	2012	2013	2014	2015	2016	Total
Mined area	Ha	22,168	1,430	1,038	1,561	871	1,615	28,683
Rehabilitated area	Ha	16,146	1,402	807	960	750	1,556	21,621
Rehabilitated ratio %		73%	98%	78%	61%	86%	96%	75%
Expenses for rehabilitation	MNT m	57,458	14,808	7,382	9,212	4,019	6,369	99,248

Source: 2016 Statistics, the Mineral Resources and Petroleum Authority

The chart below sets out a comparison between mined areas and rehabilitated areas between 2010 and 2016:



Source: 2016 Statistics, the Mineral Resources and Petroleum Authority

### Implementation of mining plan and rehabilitation work performed by mineral licence holders (except coal)

According to information provided by MRPAM, a total of 159 companies, provided details about the performance of planned mining activities and rehabilitation activities by mineral licence holders in 2016. Please refer to Appendix 30 for details at company level. A summary of these mining activity plan implementations and rehabilitation works is as follows:

<sup>20</sup> Source: 2016 Statistics, the Mineral Resources and Petroleum Authority

Implementation of mining activity plan and rehabilitation activities by mineral licence holders										
Mineral type	No. entit's	Mining				Rehabilitation				
		Area (ha)		Volume ('000 m³)		Area (ha)		Volume('000 m³)		Total expenses (MNT mill)
		Plan	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Copper	1	151	-	-	-	115	110	-	-	-
Gold	48	742	715	41,145,496	1,611,847	11,421	11,467	821,759	77,876, 775	5,500,718
Manganic	1	88	49	-	-	-	-	-	240,000	2
Silver	1	Data not provided								
Fluorspar	24	49	23	54,070	6,188	5	11	150	188,384	74
Iron	7	20	5	500,000	20,090	15	26	28,030	3,480,821	62
Alloy	3	151	1		6,603	118	113	6,600	44	68
Pewter	2	16	6	6,542	35,295	1	6	6,542	228,012	6
Gypsum	3	4	2	240,786	-	-	-	-	154,303	-
Zinc	7	1	1	-	-	4	4	-	-	-
Sandstone	58	15,687	13,555	1,301,183	111,397	5,020	5,047	54,514	905,312	104
Zeolites	1	1	0	-	-	-	0	-	-	-
Wolfram	3	14	2	44,000	1	2	3	1	11,420	15
Total	159	16,924	14,359	43,292,077	1,791,421	16,701	16,787	917,595	83,085,071	5,501,049

Source: the Mineral Resources and Petroleum Authority

### Implementation of mining plan and rehabilitation work performed by coal licence holders

Coal is regulated under a different department within MRPAM and the reporting on implementation plan is different than for other minerals. A total of 17 coal-producing companies have reported their mining plan implementation and rehabilitation works.

Implementation of mining plan and rehabilitation work performed by coal licence holders									
Company name	Licence #	Mining			Rehabilitated area			Total expenditures (MNT mill)	
		Plan	Actual		Plan	Actual		Plan	Actual
		ha	ha	000'm³	ha	ha	000'm³		
Khotgor	MV-001441	0.5	0.2	55,625	0.9	0.3	28, 000	10.5	10.5
	MV-014442	0.3	0.3	0.3	0.7	0.4	0.4	69.3	35.8
Shariin Gol	MV-001498	50	42.6	100	45.6	23.8	-	16.5	16.5
Erchim	MV-005696	0.2	0.6	-	0.2	0.2	27, 344	10.5	10.5
Nainge	MV-001364	3.5	3.5	1,007	11	10.7	100,380	29.4	65.8
Shtaincole	MV-011281	5.2	11.3	1,004	10	1	500	25	2
Andiin Ilch	MV-012307	4.5	-	3,511	2.1	-	500	19.5	0.5
Chinhua MAK Nariin Sukhait	MV-005459	12.7	12.7	25,360	35,381	12.7	25,360	15.1	8.9
Usukh Zoos	MV-017317	-	4.8	4,563	6.5	6.5	26,750	42	38.5
Baylag Ord	MV-000222	0.5	1.1	4,563	1.6	1.6	140,010	6.1	15.6
Mongoliin Alt MAK	MV-002545	-	3.9	564,362	-	10.6	572,404	6.1	15.6
	MV-002545	56.1	50.2	30,056	3	2.5	33,536	3.1	4.1
C.O.A.L	MV-016865	0.7	0.7	2,037	-	0.7	2, 044	22.5	13.1



Implementation of mining plan and rehabilitation work performed by coal licence holders									
Company name	Licence #	Mining			Rehabilitated area				
		Plan	Actual		Plan	Actual		Total expenditures (MNT mill)	
		ha	ha	000'm <sup>3</sup>	ha	ha	000'm <sup>3</sup>	Plan	Actual
Baganuur	MV-001371	78	18	22,617	20.2	21.8	29,380	124.6	115
Petrocoal	MV-012475	0.1	1	74.1	-	0.6	3,960	3	7
Energy Resource	MV-011952	245.8	253.6	15,333	2.3	2.3	-	-	46.9
Southgobi Sands	MV-012726	50	26	51	4	3.2	-	165	165
Berkh-Uul	MV-004590	0.3	0.6	145	0.9	0.4	27	8	4.8
Erdenes Tavan Tolgoi	MV-011943	120	141.1	35,381	1.6	1.6	43,000	20	46,761

Source: the Mineral Resources and Petroleum Authority

### Implementation of mining plan and rehabilitation work performed by crude oil licence holders

The performance of mining activity plans by crude oil extracting companies is shown as below:

Implementation of mining activity plans by petroleum licence holders (000' barrel)			
Name of the area	Plan	Actual	Actual %
Toson-Uul XIX	5,180	3,819	73.72
Tamsag XXI	4,320	3,885	89.92
BHG-97	428	358	83.64
<b>Total</b>	<b>9,928</b>	<b>8,062</b>	<b>81.20</b>

Source: the Mineral Resources and Petroleum Authority

The table below shows the performance of rehabilitation works performed by petroleum licence holders:

Works	Unit price (USD)	Planned quantity	Comments	Performance
<b>Toson-Uul area XIX</b>				
Drill debris, liquid neutralisation rehabilitation	3,800	86 holes	86 fund, 2015	36 holes
Soil sampling, laboratories' examination	600	30		signed contract
Environmental assessment	20,000	2	2016 budget	implemented
Rehabilitation and cultivation	300,000	1	2016 budget	soil scuffled
Water hole drill designed for underwater monitoring				-
<b>Tamsag area XXI</b>				
Drill debris, liquid neutralisation rehabilitation	3,800	164	74 fund, 2014, 90 fund, 2015	90%
Soil sampling, laboratories examination	600	30		30%
Rehabilitation and cultivation	45,000	30	2016 budget	30%
Environmental assessment	20,000	2		1
Water hole drill designed for underwater monitoring	35,000	1	2015 budget	1

Source: the Mineral Resources and Petroleum Authority

PSA-97 area reported by Donshen Oil LLC		
Planned activities	Performer	Work report
Area monitoring, examination	Enco LLC	delivered
Soil examination for rehabilitated area	Khatan Dalai LLC	delivered
Environmental audit	Tseehee consulting LLC	delivered

Source: the Mineral Resources and Petroleum Authority

### 5.5.6.2 Companies with rehabilitation permits and their locations

Companies with rehabilitation permits perform the rehabilitation works by contracting either mining companies or the related Governor of the district or aimag where the mining is located.

MET has reported that there are total of 96 companies that obtained or extended rehabilitation permits in 2016. 75 of these companies are located in Ulaanbaatar. The rest of 21 companies spread throughout 10 aimags including Dornod, Bulgan, Bayankhongor and more. However, the locations of the companies do not necessarily indicate where they operate because, according to MET, most rehabilitation companies are appointed by the mining companies.

The number of companies with rehabilitation permits, arranged by location, is shown in the below table. For a full list of the 96 companies please refer to Appendix 31.

Companies with rehabilitation permits by location		
City/Aimag	District/Soum	Companies
Ulaanbaatar	Bayangol district	18
	Songinokhairkhan district	10
	Sukhbaatar district	13
	Bayanzurkh district	18
	Khan-Uul district	5
	Chingeltei district	11
Selenge aimag	Mandal soum	1
Uvurkhangai aimag	Arvaikheer soum	2
Bayankhongor aimag	Bayankhongor soum	2
	Nomgon soum	1
	Bumbugur soum	1
Orkhon aimag	Bayan-Under soum	2
Uvs aimag	Ulaangom soum	1
Gobisumber aimag	Sumber soum	1
Dornod aimag	Kherlen soum	4
Dundgovi aimag	Ulziit soum	1
Khovd aimag	Jargalant soum	2
Bulgan aimag	Khyalganat soum	1
Umnugovi aimag	Dalanzadgad soum	2
<b>Total</b>		<b>96</b>

Source: the Ministry of Environment and Tourism

## 6 Recommendations

### 6.1 Implementation of last year's recommended actions (REQ 7.3)

Among other recommendations, the 2015 M.EITI Report set out recommendations on disclosure of PSAs, licencing information, issues related to SOEs, data assurance and the E-Reporting system. Where possible, the MSG sought to implement these recommendations during the 2016 process.

Some of the recommendations set out in the 2015 M.EITI Report have yet to be realised, and some were partially implemented. The reconciliation remains a complex and time-consuming process, particularly given the prominence of EI in Mongolia and its importance to the national economy, although we note that the implementation of an E-Reporting web based system for reporting payments has assisted the process.

The table below summarises the 2015 recommendations and their implementation.

Recommendation	Reference, 2015 M.EITI report	Status in 2015 Report
Disclosure of product sharing agreements	7.2.1	Still applicable
Licence information: <ul style="list-style-type: none"> <li>- Compliance with minimum requirements of licence information disclosure</li> <li>- Consistent information from MRPAM cadastral department on licence statistics</li> </ul>	7.2.2	Partially implemented
SOEs to have an appropriate and complete rehabilitation plan in place	7.2.3	Partially implemented
MSG to discuss with MoF and SOEs about the qualifications on the SOEs audit reports	7.2.4	Partially implemented
Assurance: <ul style="list-style-type: none"> <li>- Government: involvement of MNAO on the EITI data assurance</li> <li>- Companies: to increase engagement with companies to secure better compliance in submitting audited financial statements</li> <li>- Management assurance: to increase engagement with companies to secure better compliance in submitting representation letters</li> </ul>	7.2.5	Partially implemented
E-Reporting system: <ul style="list-style-type: none"> <li>- Use of E-Reporting system by reporting entities: to increase companies and government entities' compliance in reporting their data in the system</li> <li>- Non-extractive companies: to review companies using the E-Reporting system and to remove any non-extractive companies</li> <li>- General IT Controls: specific recommendations on improvement of the General IT Controls over the E-Reporting system</li> </ul>	7.2.6	Still applicable
Early involvement of the Independent Administrator	7.2.7	Implemented
Reporting at project level	7.2.8	Still applicable

## 6.2 IA's Recommendations for future M.EITI Reports

### 6.2.1 Assurance over data reported by government departments

Currently the MNAO and local government audit offices do not perform any procedures over, or provide any assurance on, the EITI data reported by government entities as part of the process. We understand that the M.EITI Secretariat has drafted a data assurance procedure to be performed over the EITI data reported by government entities and proposed this to the MNAO with the implementation of the proposed procedure to be piloted in 2018.

In addition, this year, a new procedure involving the State Secretary and Director General of Budget Policy Planning Department of the Ministry of Finance signing off of EITI data reported by government entities has been introduced. This has increased the overall assurance over data reported by government entities compared to prior years.

#### **Recommendation**

It is recommended that there is a continuation of work with the MNAO to achieve a successful implementation of the proposed procedure to provide assurance over the EITI data reported by the government entities.

### 6.2.2 Emphasise the importance of the M.EITI Report for government entities

We noted that involvement of government entities in the EITI process tends to decrease over the years. This is especially relevant for receiving detailed EITI data for reconciliation and contextual information from central government agencies. We encountered major difficulties when requesting contextual information and in clarifying the EITI data, required by the EITI Standard agencies, from a small group of central government agencies. We believe this may be in part due to a change in government in 2016 and then in 2017, and in part due to awareness of the importance of the EITI initiative.

#### **Recommendation**

It is recommended that the National Council formalises a plan to increase awareness about the importance of the EITI and the importance of better cooperation from the government agencies that provide EITI data.

### 6.2.3 Capacity building of the SOEs on the SOE specific requirements of the EITI Standard

The EITI Standard requires additional information to be disclosed by SOEs, such as financial relationships between the government and SOEs, quasi-fiscal expenditures, and public infrastructure. The Independent Administrator noted that due to the complexity of these requirements, the number of SOEs reporting information in compliance with these requirements is low. For the 2016 EITI Report, we provided training to SOEs so as to increase understanding of such requirements. We also continually provided support on an individual basis during the data collection process. We believe continuous capacity building of the SOEs on these requirements is necessary.

#### **Recommendation**

It is recommended that continual training and training materials should be provided to SOEs on the SOE specific requirements of the EITI Standard. This recommendation is made so that the disclosure process for all the information in compliance with requirements of the EITI Standard will be improved and the barriers and limitations which may prevent such disclosure are fully understood.

#### 6.2.4 Revenue stream collected in the E-Reporting system

During the Independent Administrator's reconciliation process, major issues arose due to the revenue stream for VAT. The VAT is paid by companies to two government entities: Mongolian Tax Authority and Customs Office. In the current M.EITI E-Reporting system, VAT is recorded in a single field. The Independent Administrator spends a significant amount of time distinguishing the parts of VAT collected for each entity and often the identification of the correct entity to send the funds to is impossible.

##### **Recommendation**

It is recommended that two different fields for VAT revenue stream in the M.EITI E-Reporting system should be created: one for VAT payable to the Mongolian Tax Authority and one for VAT payable to the Customs Office. It is also recommended that companies submit separate reports on the VAT paid to either the Mongolian Tax Authority or to the Customs Office.

#### 6.2.5 Distinguishing EI business activity from other types of business activities

As noted in Section 4.2.3.5, if a company is recognised by the government as being part of the Extractive Industries based on licence information, all revenue streams from this company are included into the government's reported data, even if the company is also engaged in other, unrelated activities. As a result, the government's EI data could be higher than reality. We acknowledge that there are constraints on the availability of information segmenting EI payments and non-EI payments within the government reporting.

Companies were selected for reconciliation purposes based on the government's reported data, as the government reported data appeared to be the most complete source of data at that point in the process. The payment data collected is company-wide, irrespective of the particular activities or industry which generate the payments. Including company-wide payment data influences which companies are selected for reconciliation and large companies with payment data from more diverse operations, with only a limited part derived from EI, may be included in the data catchment process and cause a bias data set. As such, it would be more appropriate to exclude them from the reconciliation sample.

##### **Recommendation**

It is recommended that a new system at the government level is formulated, and suggestions on how to distinguish EI business and revenue streams from other business revenue streams performed by the same entity, are made, considered and implemented.

#### 6.2.6 Cadastral information

Certain licencing information required by the EITI Standard 2.3 is still not publicly available in the MPRAM's cadastre. We requested missing information required by the standard from MRPAM and publicise those through the publication of the 2016 EITI Report. However, there should be a procedure to make licence information that complies with the EITI Standard, specifically annual updates of application dates and coordinates of the PSAs, publicly available.

A similar issue was identified in the 2015 M.EITI Report.

##### **Recommendation**

It is recommended that improvements should be made to the cadastre data available for viewing publically to allow visibility of information that complies with the minimum requirements of the EITI Standard.

### 6.2.7 Disclosure of Product Sharing Agreements

We identified only 3 product sharing agreements that were publicly available. We are aware that legislation was passed in 2014 which allows PSAs to be disclosed.

A similar issue was identified in the 2015 M.EITI Report.

#### **Recommendation**

It is recommended that the National Council raise this matter with the Ministry of Mining and Heavy Industry and disclose PSAs that are currently active.

## 6.3 MSG's Recommendations

### 6.3.1 Unreported companies and SOEs

It is recommended by MSG that sanctions should be increased for companies that did not report initially to M.EITI nor subsequently to the Independent Administrator or did not disclose their audit report.

### 6.3.2 Implementation of Regulation on Extraction of Minerals from Small-Scale Mines

It is recommended by MSG to strengthen the implementation of Government Resolution 151 (former Resolution 308 of 2010), the Regulation on Extraction of Minerals from Small-Scale Mines, which was enacted to formalise and identify artisanal mining activities.

### 6.3.3 Contract transparency

It is recommended by MSG to strengthen the implementation of the EITI Standards on contract transparency and to establish a relevant legal environment. The recommendation arose due to a lack of clarity in the legal environment over contract transparency, including PSAs, in the Extractive Industry of Mongolia.

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